

Office of Thrift Supervision

RB 32-2 was rescinded 3/17/99 by RB 32-10 and PERK revisions. Click [HERE](#) to link to RB 32-10

Handbook: Thrift Activities
Subjects: Examination Strategy, Management, and Scoping;
Internal Controls; Mortgage Banking

Sections: 060
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RESCINDED

Summary: This Bulletin describes revision highlights to Thrift Activities Handbook Section 060, Examination Strategy, Management, and Scoping. Attached is revised Section 060 (changes are shown in bold italics) which should replace the existing section in your handbook. This Bulletin also transmits, as a result of the recent PERK revision, new Internal Controls and Mortgage Banking Questionnaires which should replace existing Thrift Activities Handbook pages 340A.11 through 340A.20 and 571A.1 through 571A.3 respectively.

For Further Information Contact: The OTS Regional Office in which you are located; or the Thrift Supervision Policy Division, Washington, DC.

Regulatory Bulletin 32-2

Thrift Activities Handbook Section 060, Examination Strategy, Management, and Scoping, has been revised in the areas of examination strategy and work paper documentation. A new section has been added regarding the Preliminary Examination Response Kit (PERK).

Examination Strategy

OTS has revised its safety and soundness examination strategy pursuant to the Riegle Community Development and Regulatory Improvement Act of 1994 which amended the provisions set forth in the Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991.

The parameters for the examination of certain smaller insured institutions at 18-month intervals were revised to include institutions that:

- are not currently subject to a formal enforcement proceeding or order by the OTS or the FDIC;
- as of the most recent quarter-end, have a composite 1-CAMEL rating and total assets

less than \$250 million or a composite 2-CAMEL rating with total assets \$100 million or less;

- are well-capitalized as defined under Section 38 of the Federal Deposit Insurance Act (FDIA);
- have a Management component rating of 1 or 2; and
- no person has acquired control of the institution during the 12-month period since completion of the last full-scope examination.

OTS will conduct examinations on an 18-month cycle for eligible smaller institutions that have had a full-scope safety and soundness examination report or alternating state examination report transmitted on or after November 1, 1994. OTS will continue to conduct full-scope safety and soundness examinations in all other institutions on a 12-month examination cycle.

Regional offices may accept full-scope, on-site examinations conducted by state depository institution regulatory authorities on an alternating basis in lieu of an OTS examination, provided such examinations meet the requirements and objectives of this examination strategy.

PERK

The Preliminary Examination Response Kit (PERK) was revised to reduce regulatory burden. All requests should be only for the minimum information needed to conduct a risk-focused examination based on the examination scope. This approach will increase the efficiency of the on-site examination and reduce the burden on savings associations, particularly for highly rated, well-managed institutions engaging in traditional activities.

Pursuant to the OTS customer service plan standards, the PERK will be sent to the institution four weeks prior to the examination start date and will include:

- the approximate start date for the on-site examination;
- the examination as of date;
- the number of on-site staff and an estimation of the amount of time required to conduct the examination; and
- a contact person's name and phone number.

The PERK documents are categorized according to a "core" PERK, a compliance examination PERK, and supplemental documents. The OTS has updated references and eliminated redundancies throughout the

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PERK. The Attorney Letter and the Regulatory Limitations Worksheet were eliminated.

In addition, institution management need only respond once to information requests required to fulfill concurrent examination requirements, for example, one copy of the business plan will fulfill concurrent safety and soundness and compliance examination requirements. The OTS Regional Office has the flexibility to tailor the PERK requests to the particular institution being examined and need only request those items necessary to conduct the examination.

To facilitate the scoping and planning process for the next examination, the examiner in charge (EIC) at the conclusion of each examination should complete a summary schedule to be retained and updated, as necessary, for the PERK at the succeeding examination.

Handbook Section 060 provides instructions specific to each PERK document. The Regulatory Limita-

tions Worksheet was added as an Appendix to section 060 for optional use by institution management and examiners.

Work Paper Documentation

The regulator should include in each of the examination work papers, a title or well-marked description of the work paper purpose, the scope for the particular area of review, the sampling criteria used, and the procedures performed.

The EIC is required to review and initial all work papers, indicating agreement with the conclusions reached and ensuring that assistants have complied with the applicable documentation requirements.

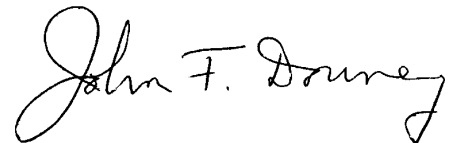
There are certain items that should be included in the continuing examination file (CEF), e.g., an organizational chart, enforcement documents, a copy of the charter and bylaws, copies of employment contracts, etc., unless the item is not applicable to the particular institu-

tion being examined.

The general file (GF) will contain the administrative information related to the examination, e.g., regulatory plan, exception sheets, alert letter, etc., and is organized to correspond with the administrative section of the Thrift Activities Handbook. Exception sheets should be used to record all specific regulatory and policy violations that are not specifically discussed in the ROE.

Examiners are required to rate and support all the applicable subfactors reviewed under each CAMEL factor, documenting such ratings on EDS Part III. Each rated subfactor must be supported either in the work papers or in a conclusion documented on the appropriate program.

Attachments



—John F. Downey
Director of Supervision

Introduction

This Handbook Section discusses the Office of Thrift Supervision (OTS) examination strategy and provides specific guidance for scoping and managing examinations. Scoping is the process of determining the specific examination procedures to be performed and the depth of coverage. Effective management expedites and enhances the examination process by ensuring that objectives are met efficiently.

This Handbook Section also includes a separate discussion on scheduling, scoping, and conducting examinations with the FDIC. This discussion is provided at the end of this Section, before the Examination Objectives.

Examination Strategy

Pursuant to the Riegle Community Development and Regulatory Improvement Act of 1994, the OTS revised its examination strategy to require a full-scope (type 10), on-site examination in every institution on a 12-month cycle, regardless of the composite CAMEL rating. An 18-month examination interval applies to certain smaller insured institutions that:

- *are not currently subject to a formal enforcement proceeding or order by the OTS or the FDIC;*
- *as of the most recent quarter-end, have a composite 1-CAMEL rating and total assets less than \$250 million or a composite 2-CAMEL rating with total assets \$100 million or less;*
- *are well-capitalized as defined under Section 38 of the Federal Deposit Insurance Act (FDIA); and*
- *have a Management component rating of 1 or 2.*

In addition, no person may have acquired control of the institution during the 12-month period since completion of the last full-scope examination. *If a change of control has occurred within nine months since the “close” date of the prior examination at an institution that otherwise meets all of the criteria specified above for an 18-month examination interval, the next examination should commence, at a minimum on a 12-month examination interval. If a*

change of control has occurred at any institution after nine months have elapsed since the “close” date of the prior examination, a full-scope examination should commence within 90 days of the effective date of the change in control.

OTS will conduct examinations on an 18-month cycle for eligible smaller institutions that have had a full-scope safety and soundness (type 10) examination report or alternating state examination report (type 11) transmitted on or after November 1, 1994. OTS will continue to conduct full-scope safety and soundness examinations in all other institutions on a 12-month examination cycle.

Regional offices may accept full-scope, on-site examinations conducted by state depository institution regulatory authorities on an alternating basis in lieu of an OTS examination, provided such examinations meet the requirements and objectives of this examination strategy.

More frequent examinations or supplemental examinations may be scheduled as necessary. Special limited examinations (type 40) will not satisfy the requirement for a 12-month cycle, on-site examination and should be used only for supplemental review.

Concentration on improving examination efficiency and a risk-focused regulatory approach are critical to ensuring a sound thrift industry. The objectives of this strategy are to *assess the overall safety and soundness of each institution in a timely manner* and to ensure the accuracy of each institution's composite and component ratings. This frequency of type 10 examinations will help ensure that regulators find problems or significant developments in the institution's operations in the early stages, when these problems are easier to manage and resolve.

Additional Examinations

All institutions must be examined on at least a 12-month cycle with the exception of institutions that meet the 18-month cycle requirements. The regulator must conduct more frequent examinations of those institutions that undergo a significant change in condition. More frequent or supplemental examinations may also be necessary for: (1) de novo or newly insured institutions; (2) institutions that have had a change in management, control, or operations;

and (3) institutions under an enforcement agreement.

All institutions should be closely monitored for any significant changes in operations. The regulator should analyze the Thrift Financial Reports, National Financial Monitoring System (NFMS) reports, the Regulatory Plan, and any other pertinent information on a regular basis, and document the review. To determine if an institution needs an on-site examination, the regulator should focus on the following factors:

- Changes in key financial ratios and indicators;
- Changes in business activity and strategy, such as a change in loan product lines, the investment portfolio, or the deposit structure;
- Compliance with prior enforcement actions;
- Negative earnings, unfavorable earnings trends, or dependence on nonoperating income;
- The levels and composition of capital, as well as trends in capital formation and accumulation;
- An excessive rate of growth or a level of growth that exceeds capital levels or regulatory or supervisory directives; and
- Other information such as the independent audit report, news articles, supervisory correspondence, and information obtained from examinations of other institutions.

Examination Scoping

To help OTS meet its strategy of an on-site presence in each institution every 12 or 18 months, the regulator must place a greater emphasis on risk analysis and prioritization. To do this, the regulator should vary the scope of review in each area, with risk factors in mind, and concentrate on the areas that pose major risks to the institution. This will help ensure that examinations are efficient without compromising accuracy, i.e., there should be less review in those areas where there are no significant current or potential problems, and more review where major risks are present or possible. Risk analysis and prioritization are concepts that are stressed throughout this Handbook.

Preliminary Examination Scoping

Since the Regulatory Plan provides a current profile of the major risks in an institution, it should serve as the basis for the initial examination scope. The supervisory manager should ensure that the scope (1) provides for a sufficient review of high-risk areas and (2) includes clear, *specific* guidelines on the depth of review needed in each area.

The regulator should be aware that major areas of risk do not necessarily mean problems; there is a certain amount of risk inherent in conducting a profitable institution. The scope should include procedures that enable the regulator to determine if the institution's level and management of risk is unsafe and unsound. The scope should also concentrate on any changes occurring in the institution, since any change in operations or management can pose a significant risk.

Any material risks that are discovered during the scoping process should be considered for review; however, staffing, costs, and time constraints must also be considered. The cost of review should be weighed against the materiality of potential problems.

The examination scope will vary depending on the institution's size, activities, and condition; however, the scope must always be sufficient to allow regulators to adequately assess the institution's condition and operations. The preliminary scope may provide information needed to determine staff expertise requirements, the examination start date and duration, and strategies for conducting the examination.

Scoping may be done off site and on site. Items that are usually available off site include:

- The Regulatory Plan (see Thrift Activities Regulatory Handbook Section 050) for the institution;
- Prior thrift, holding company, and service corporation examination reports, work papers, and recommendations;
- Documentation pertaining to supervisory and enforcement actions;
- Results of off-site monitoring;

- The institution's business plan;
- Correspondence and internal memoranda pertaining to the institution;
- OTS financial reports and monitoring reports;
- Independent audit reports and management letters;
- Securities and Exchange Commission (SEC) reports and filings;
- Economic information concerning the institution's market area(s); and
- News articles.

Ongoing Examination Scoping

A well-defined scope, regardless of the size or condition of the institution, can significantly improve examination productivity. It is not efficient to begin with a broad scope and then try to narrow it over the course of the examination. Instead, the examination should initially focus on areas of major risk and then be expanded as other significant problems or changes are uncovered or suspected. The regulator should also expand the scope if ratings cannot be assigned without performing additional procedures. Determining the depth of review (Level II and Level III procedures) within specific programs may not be possible without a preliminary analysis (Level I procedures). For further information regarding the three levels of review, refer to Section 011 of this Handbook, Program Use.

The ongoing determination of scope, particularly the depth of review within each program, requires the involvement of each member of the examination team. The examiner in charge (EIC) is responsible for ensuring that the team is aware of the procedures needed to efficiently meet the scope. The EIC and the other team members should discuss any necessary changes to the scope on an ongoing basis.

The EIC should discuss any significant changes in the scope, projected staffing needs, or completion date with the managing supervisory regulator as soon as these changes are anticipated. This is important because overall planning for the region's regulatory activities will be affected by such changes. Expansions of scope that will cause the examination to extend beyond the original time frame should be

discussed with the regional director or designee.

Safety and soundness examiners should also communicate any significant changes to the scope and the reasons for them with examiners involved with holding company, consumer compliance, trust, and electronic data processing (EDP) examinations. Significant findings and conclusions should also be shared to avoid duplication of efforts. If applicable, regulators should maintain close communication with Federal Deposit Insurance Corporation (FDIC) regulatory authorities and appropriate state regulatory authorities.

Upon commencement of the on-site examination, additional information that may affect the scope should be reviewed as soon as possible. Scoping materials commonly reviewed on site include:

- The Preliminary Examination Response Kit (PERK) completed by the institution personnel;
- Minutes from the meetings of the board of directors, board committees, and management committees;
- Board reports and management reports;
- Internal audit reports;
- Internal Asset Review (IAR) reports;
- The general ledger and subsidiary ledgers;
- Business plan;
- The operating budget;
- Any new contracts (e.g., employment, electronic data processing);
- Leases; and
- Loan registers.

Additional Scoping Considerations

As soon as practical, before or at the beginning of the examination, the EIC should also meet with the Chief Executive Officer (CEO) to discuss items of interest or concern that could affect the scope. Regulatory Bulletin (RB) 4a should be provided to the CEO accompanied by a discussion of the process for resolving differences with examiners, including the

RB 4a appeal process. At this meeting, administrative details might also be clarified.

It is helpful to prepare for the meeting with the CEO in advance so that all items of interest are covered efficiently. Topics that could affect the scope of this discussion include:

- Changes in control;
- Changes in management;
- Actions taken to correct deficiencies mentioned in prior examination reports and audit reports;
- Operating performance in comparison with the budget;
- Significant changes in operations or strategies;
- Any significant concerns expressed by management; and
- Economic and competitive conditions in the market area.

The meeting with the CEO, or a subsequent meeting with a designated institution representative, might also be used to cover the following administrative details:

- Time limits for receiving requested information;
- The availability of the regulators to answer questions from the staff preparing requested information;
- Administrative details such as: names of key contact people, facilities and parking availability, hours for work, use of equipment, etc.;
- The expected duration of the examination, any planned interruptions (these should be kept to a minimum), and names of assisting examiners;
- A meeting with the independent auditor and review of independent audit work papers, in accordance with regional policy, if applicable;
- Regular meetings with the CEO to discuss the progress of the examination and to address any other issues of concern to the CEO or the EIC; and

- An examination exit meeting with the institution's senior management to discuss examination findings, the examiner's overall conclusions, and recommendations (see Thrift Activities Regulatory Handbook Section 070, Overall Conclusions).

Preliminary Examination Response Kit (PERK)

The Preliminary Examination Response Kit (PERK) is a request by the regional office for a collection of information that should be prepared by institution management and ready for the examiners prior to or at the commencement of an examination. This information prepared by management in advance of the examination assists OTS and the institution by:

- ***increasing the efficiency of the on-site examination;***
- ***determining the scope of the examination; and***
- ***reducing costs and workload.***

General Instructions

The PERK is comprised of various documents and information requests that are listed in the Summary Schedule (PERK 001). The field manager (FM) or examiner in charge (EIC) should tailor requests on the summary schedule to the institution and type of examination. All requests should be only for the minimum information needed to conduct a risk-focused examination based on the examination scope. This approach will increase the efficiency of the on-site examination and reduce the burden on savings associations, particularly for highly rated, well-managed institutions engaging in traditional activities. Items needed for each phase of a concurrent examination, for example, concurrent safety and soundness and compliance examinations, should be listed as an information request in only one schedule, either the safety and soundness examination summary schedule or the compliance examination summary schedule.

Once the examination team is on site and final scope has been set, the EIC may determine the need for information that was not included in the PERK. Examiners should avoid making requests during the examination for information already included as

part of the PERK or asking management to resubmit portions of the PERK, for example, because the examination date changes prior to or during the examination.

Institution management should be encouraged to submit the information required for the examination on internally generated reports (if the internally generated reports will facilitate the completion of the examination); e.g., computer printouts or Lotus spreadsheets.

To meet the OTS customer service plan standards, the FM or the EIC must send the PERK to an institution four weeks prior to the examination start date. If it is not possible to send the PERK four weeks in advance, the cover letter should be amended to provide an explanation.

At the beginning of the examination, the EIC, or designee, should request the completed PERK from institution management. Management may have provided certain information prior to commencement of the examination. All documents should be prepared by institution personnel.

The examiner should review management's responses and discuss them in greater detail in the initial meeting as well as any unclear answers or areas that may affect the scope of the examination. The examiner should ensure that the appropriate dates are entered on the first page of each document and that the "Institution Name" and "Docket Number" has been indicated on each document and any attachments.

At the conclusion of each examination, the examiner in charge (EIC) to facilitate the scoping and planning process for the next examination, should complete a summary schedule to be retained and updated, as necessary, for the PERK at the succeeding examination.

PERK Letter (PERK 000) — *The PERK Letter should be prepared on OTS regional/area office letterhead in the same general format as exhibited in the sample letter provided. The PERK letter may be modified for use with safety and soundness, compliance, information systems, trust, special limited examinations, or concurrent examinations of any*

combination. Insert the appropriate paragraph as provided in the examples or create a paragraph accordingly. The regulator may identify in the letter items needed for each phase of a concurrent examination, e.g., concurrent safety and soundness and compliance examinations, and that only one copy need be provided.

The PERK letter must include:

- *an approximate start date for the on-site examination;*
- *the examination as of date;*
- *the number of on-site staff and an estimation of the amount of time required to conduct the examination; and*
- *a contact person's name and phone number, usually the OTS official who signs the PERK letter and expects to field questions from the institution, i.e., the FM or EIC.*

Summary Schedule (PERK 001) — *The summary schedule lists (1) the PERK documents enclosed in the package to the institution and (2) suggested CAMEL-related requests that should be tailored to the scope of the examination, i.e., additional requests may be added and requests that are not necessary or irrelevant should be deleted. The FM or the EIC should make a determination as to the items necessary to complete an on-site examination of the institution, and provide dates and dollar limits where appropriate. Each request should be indicated by an "A" (completion required 10 days in advance of the examination), "X" (provide at examination commencement), or "R" (make available for on-site review). In a concurrent examination, the safety and soundness and compliance EICs should coordinate to ensure that items needed for both examinations are listed in either the safety and soundness summary schedule or the compliance examination summary schedule.*

Summary schedule requests should be completed by institution management and provided to the EIC prior to or at the commencement of the examination as indicated ("A," "X," or "R"). The summary schedule may also be used as a checklist to determine

what documents have been provided by institution management.

“Core” PERK

The following documents should be included in the PERK that is sent to the institution.

Management Questionnaire (PERK 002) — Prior to sending the PERK to the institution, the examiner should type in the previous examination date and the examination commencement date at the top of the questionnaire.

The examiner should carefully review written explanations, particularly responses in the affirmative, for completeness and accuracy, and initiate further discussion with the managing officer, if necessary. If the response to No. 11.a. or 11.b. indicate a reportable event or violation of the applicable regulation, the examiner must notify the FDIC regional office.

The EIC should ensure that the managing officer has initialed each page, including any attachments, in the lower left hand corner. The signature of the managing officer, or the person responsible for the day to day operations of the institution, should be notarized on the questionnaire.

Schedule of Directors, Senior Executive Officers, and Attorneys (PERK 003) — The compensation schedule may be completed in the format exhibited in the PERK or any format currently in use by the institution that contains substantially equivalent information. Directors, senior executive officers, and designated attorneys are to be listed on the compensation schedule. “Senior executive officers” are those responsible for the management function of the institution. See RB 27a and 12 CFR § 574.9 for pertinent definitions.

Internal Control Procedural Questionnaire (PERK 004) - Each section of the questionnaire should be completed by institution personnel familiar with that section; e.g., Vice-President/Lending might complete the Lending section. An examiner should review and initial each section, preferably the examiner responsible for completing that specific phase of the examination. The EIC, or designee, as well as the appropriate supervisor, should review the entire

questionnaire and sign in the spaces provided. It should be noted that the appropriate response may not always be in the affirmative, in which case the institution should provide an adequate written explanation.

Information Systems (IS) Questionnaire for Insured Institutions (PERK 005) — The IS Questionnaire should be sent out on every annual safety and soundness examination and completed by institution personnel. The institution should forward a copy of the completed questionnaire to the IS examination manager at the regional office. The examiner should review the questionnaire and investigate inappropriate responses. It should be noted that the appropriate response may not always be in the affirmative.

Compliance Examinations

The following documents should be included in the PERK whether the compliance examination is conducted concurrently with the safety and soundness examination or separately. The regional office may (1) determine that a compliance examination will be conducted separately from the safety and soundness examination or (2) consider requests by the institution to conduct non-concurrent examinations.

Compliance Examination Summary Schedule (PERK 006) — The Compliance Examination Summary Schedule is a list of standard requests that should be tailored to the scope of the examination, i.e., additional requests may be added and requests that are not necessary should be deleted. Coordinate with the safety and soundness EIC to ensure that items needed for both the safety and soundness and the compliance examinations are listed on either PERK 001 or PERK 007. Information requested on the Compliance Examination Summary Schedule should be provided to the EIC prior to or at the commencement of the examination.

Nondiscrimination Questionnaire (PERK 007) — The managing officer should provide answers to the questionnaire and attach additional pages if space provided is inadequate.

Community Reinvestment Act Questionnaire (PERK 008) — Responses to the CRA Questionnaire

should be as specific as possible and signed by both the institution's managing officer and CRA officer. If the institution is not involved in a particular activity, management should explain why they chose not to participate in a program addressing the specific assessment factor.

Supplemental Schedules

The applicable documents listed below should be included in the PERK if it has been determined that the particular area is to be examined in conjunction with the safety and soundness examination.

Schedule for Retail Nondeposit Investment Products (PERK 009) — Completion of this schedule should be requested of any savings association engaged in the retail sale of nondeposit investment products such as stock, bonds, mutual funds or annuities.

Related Organization Questionnaire (PERK 010) — This questionnaire should be completed for each related organization that significantly affects, or has the potential to significantly affect the institution's operations, unless noted otherwise. Subsidiaries that have an insignificant effect on the institution should be listed separately with an explanation as to why they are considered insignificant. The Related Organization Questionnaire should be completed by those who have direct knowledge or can obtain it by appropriate inquiry. If the institution has no investment in related organizations, it should so state in answer to No. 1. Separate questionnaires should be used for each related organization, including second tier corporations and other sub-levels.

Information Systems (IS) Information Request Schedule for In-House Institutions and Service Bureaus (PERK 011) — This schedule should be used for examinations of independent service bureaus and institutions with an in-house data center. The schedule of information requests should be provided to the EIC prior to or at the commencement of the IS examination.

Trust Examination Summary Schedule (PERK 012) — The Trust Examination Summary Schedule of information should be made available to the EIC prior to or at the commencement of the trust exami-

nation. Management should provide a brief explanation, or the name of an individual to contact, for any information that is not provided.

Mortgage Banking Questionnaire (PERK 013) — Completion of this questionnaire should be included in the PERK if the institution or any subsidiaries are engaged in mortgage banking during the examination period.

Schedule of Stockholders (PERK 014) — This schedule should be completed to determine the stock activity that has taken place between examinations.

The **Regulatory Limitations Worksheet** was eliminated from the PERK; however, it is provided in Appendix A of this Handbook section for optional use by institution management and the examination team.

Selecting Examination Programs and Procedures

The examiner should consider all programs and questionnaires within the scope of the examination. Programs and questionnaires judged appropriate should be used, but only to the extent necessary to address the scope and support the examination conclusions. In some circumstances, not all or not even a majority of the procedures will be needed.

For those programs and procedures deemed unnecessary or minor, the regulator should include a notation, i.e., "N/AP," "not required by scope," or other explanation, as appropriate, either on the programs themselves and include them in the work papers, or simply on the program and work paper index. This will ensure the reviewer of the report that all facets of the examination were considered.

Each of the Handbook programs is structured in a top-down fashion, with three possible levels of depth of review. The top-down approach begins with a review of policies, procedures, and internal controls while focusing on the safety and soundness of the institution. This approach was developed so that regulatory personnel can expeditiously assess the degree of risk and determine the level of review needed in each area of a thrift's operations.

For example, if the regulator's review of the policies, structure, administration, and results of the institution's internal asset review program reveals that the

program is sufficient and the results are accurate, the regulator may place a greater reliance on the institution's internal review. The risk that the institution is not adequately reviewing and classifying its assets would be low, so more detailed examination procedures would generally not be necessary.

When using this top-down examination approach, the regulator should use sound professional judgment to ensure that the depth of review is sufficient to accurately assess the institution's condition, but not excessive. For further information regarding the examination program and the three levels of review, refer to Section 011 of this Handbook, Program Use.

Work Paper Documentation

The regulator should include in each of the examination work papers, **a title or well-marked description of the work paper purpose**, the scope for the particular area of review, the sampling criteria used, and the procedures performed. Documented procedures support the analysis and help maintain the integrity of the work paper. However, the regulator should avoid excessive documentation and include only information that is relevant or may require follow-up. Time spent recording extraneous information would be better spent examining high-risk areas. To facilitate any follow-up review that may be necessary, the regulator should also document the name and title of persons or a description of the records from which information was obtained. **Schedules prepared by the institution should be clearly marked as such.**

The EIC is required to review and initial all work papers, indicating agreement with the conclusions reached and ensuring that assistants have complied with the applicable documentation requirements. The TFR, UTPR, and other multi-page printed documents need only be initialed and dated on the first page. At a minimum, the FM will review the work papers prepared by the EIC and the supporting documentation for the report comments. As the FM may not have an opportunity to review every number included in the ROE, the EIC should ensure that all comments, charts, and appendices have been carefully checked by exam staff. To facilitate the verification of information in the comments, regulators should either highlight or circle in red these items in the work papers.

The regulator should provide a conclusion for each work paper or area of review that summarizes examination findings and indicates if any corrective action is needed. Documented conclusions for each area of review help support the CAMEL factor and composite ratings, as well as any corrective and enforcement action that may be necessary.

Continuing Examination File (CEF) and the General File (GF)

CEF

The following items should be included in the CEF unless not applicable to the particular institution being examined:

- Management and Director Committees and Members**
- Organizational Chart (PERK)**
- Officer Resumes**
- Directors' and Officers' Home Addresses**
- Enforcement Documents**
- Schedule of Branch Offices and LPOs**
- Copy of Charter and Bylaws**
- Copy of Conditions for Insurance (in force)**
- Summary of Leases**
- Holding Company/Affiliates Corporate Structure (PERK)**
- Internal Audit Program (PERK)**
- Stockholders' Schedule (PERK)**
- Proxy Statement**
- Approved Appraisers and Qualifications (PERK)**
- Employment Contracts (PERK)**

If an institution policy must be included as part of work paper support, then it should be filed in the appropriate CAMEL section of the work papers rather than the CEF. Similarly, the business plan and budget requirements should be included in the Management/Administration work paper file.

GF

The general file will contain the administrative information related to the examination, and is organized to correspond with the administrative section of the Handbook.

The following items should be included in the general file:

Exception Sheets
Exam Strategy, Management, and Scoping Program
Regulatory Plan
Pre-Assignment Analysis
Alert Letter
Overall Conclusions Program
EDS Part III Interim Report
Recent Correspondence
Preceding Report of Examination
Newspaper Clippings

Exception sheets should be used to record all specific regulatory and policy violations that are not specifically discussed in the ROE. Either the managing officer or the appropriate department head must provide a disposition for each problem noted and initial the exception sheet. A copy of all exception sheets must be provided to the managing officer.

Subfactor Ratings

Examiners are required to rate and support all the applicable subfactors reviewed under each CAMEL factor, documenting such ratings on EDS Part III. Each rated subfactor must be supported either in the work papers or in a conclusion documented on the appropriate program. If a program or work paper conclusion adequately addresses and supports a subfactor rating, then the examiner may place the appropriate work paper index on EDS III. However, the referenced work paper or program must have a conclusion that adequately supports the subfactor rating.

Examination Management

Managing examinations is as important as scoping them. The level and sophistication of management methods and procedures will vary depending on the activities to be performed and the size and nature of the institution. The EIC carries the primary responsibility for managing the examination. Key elements the EIC should consider are:

- The examination objectives: The EIC must ensure that the assistants understand the objectives for the examination and for their assigned programs. Objectives should be specific as to results desired.
 - The examination procedures contained in the individual programs are designed to be

comprehensive. Therefore, it is important that only the appropriate procedures are selected within each program. Assistants should notify the EIC as questions occur regarding scope or depth of review.

- Organization: This involves scheduling meetings with institution personnel; arranging appropriate workspace for regulators; prioritizing and scheduling work flow; communicating examination status; preparing the examination report; and preparing, filing, indexing, and reviewing work papers.
- Assignments and job monitoring: The EIC must determine the expertise necessary to perform certain aspects of the examination and make assignments accordingly. When warranted, major areas should be assigned to individual assistants. Depending on the size of the job, the EIC may also want to delegate certain management responsibilities to assistants. Delegation will free the EIC to perform critical functions and allow the assistants to improve upon administrative and management skills. Training and development needs should also be considered when making examination assignments.
 - Whenever possible, assistants should be assigned to program areas that they can complete, including report pages and comments, before leaving the assignment. This allows for efficiency and accountability and provides necessary on-the-job training.
 - Assistants' performance must be monitored throughout the examination to ensure that objectives are being met according to schedule and to prevent minor problems from growing. It is also important to avoid material deviations into unplanned activities. Early identification of work-related problems also allows the assistants the opportunity to correct mistakes and to immediately improve upon skills.
- Budgeting and monitoring overall time: The EIC must consider the time budget when assigning tasks. A useful tool for improved personnel planning is a time and planning summary that is organized according to the sections contained in this Handbook. It specifies the areas for which procedures are planned and provides for a comparison of actual and budgeted hours. Any

activities not included on the time sheet should be added by the EIC as needed.

- The EIC should assign priorities to the critical categories and determine optimal timing of simultaneous activities. Ordinarily this can be accomplished by assigning categories of related programs to one assistant who subsequently may supervise others. If time allows, it is also most efficient to have one assistant complete interrelated programs to avoid duplication of effort.
- To minimize costs and disruption for the institution, it is important that the examination be conducted as quickly as practical. A stable crew with minimal interruptions of staff time allows for continuity and efficiency. It is the responsibility of the EIC to discuss any planning problems with a supervisor. If institution management is concerned about scheduling, this matter should also be discussed.
- When assigning programs, budgeted hours for each category should be estimated, totaled, and used as the target against which results are measured. In complex situations, more formal control techniques may be helpful. For example, a supplemental planning analysis that specifies the date each activity is to be performed and the individual responsible may be necessary when there are many activities and assistants involved in a single examination.
- Monitoring the progress of the examination allows for early adjustments to the scope, staffing, and completion date, as necessary, for the examination. The EIC is responsible for notifying a supervisor as soon as adjustments to scope are considered necessary.
- On-the-job training and evaluation of assistants: Assistants may frequently need guidance, depending on their experience and ability. Questions should be encouraged and the EIC is responsible for ensuring that someone is available to provide guidance. Depending on the size of the job, the EIC should be familiar with the work performed by the assistant(s) so that the EIC can make fair and constructive evaluations of the work performed.

distributed: The PERK is sent by the office staff to the institution prior to the beginning of the examination. The EIC should set up controls to ensure that all information requested is received as early as possible. The EIC should also list any other items needed and submit the list to the contact person as early as possible to allow time for preparation by institution personnel. Institution personnel should be encouraged to ask questions if instructions for preparation of requested information are unclear.

- Serving as the primary communications link: The EIC is the focal point for communications on significant matters. Assistants, institution personnel, and regional office staff must all know how to communicate information and when information should be shared. During examinations it is important that answers to significant items be given by only one responsible individual. This should be coordinated by the EIC if questions arise.
- Ensuring a cooperative and positive working environment: Examinations should be conducted with as little disruption, conflict, and confusion as possible. A positive work environment fosters the productivity of the team members. Disagreements will occur at times, but an antagonistic role should be avoided. Allow for regular meetings with management to discuss findings and questions, and avoid monopolizing the time of the staff as much as possible. A professional and considerate approach usually results in cooperation from the institution staff.
- Determining that the examination objectives have been met: At the conclusion of the examination, the EIC should be assured that the examination objectives have been met and that appropriate procedures have been followed for all the on-site examination functions.

Examination Conclusion

At the conclusion of the examination, regional office staff should review the examination report and update the regulatory plan. Regulatory staff must also ensure that the institution takes prompt corrective action for any problems found during the examination and should closely monitor the institution's condition for any recurrence of these or new problems.

- Ensuring that PERK information is received and

OTS regional staff should send the report of exami-

nation to 1- and 2-rated institutions within 30 days and to 3-, 4-, and 5-rated institutions within 45 days from completion of on-site examination activities.

OTS/FDIC Joint Examinations Process

The OTS and FDIC regional staffs should meet quarterly to review the examination schedule for the next six months. The FDIC should indicate those examinations in which joint participation is desired. It is assumed that all FDIC savings association examination activities will be performed on a joint basis unless compelling reasons dictate otherwise.

For joint examinations, the FDIC and OTS should jointly scope the examination at the EIC level or at the respective regional office level. Disagreements over scope should default to the broader alternative. When examinations of savings association affiliates are considered necessary, the EIC should decide how the examinations will be conducted.

For non-joint examinations, the OTS should determine the scope and provide the FDIC a copy of the proposed final report and allow a ten-day period for review and comment prior to the OTS transmission to the institution.

Report of Examination

Joint examinations will represent a division of responsibilities among the joint staff; the OTS and FDIC should each provide an EIC, who will share responsibility for managing the examination and will be responsible for resolving inter-agency differences during the examination process. EICs of both agencies should coordinate and communicate during the examination to assure examination objectives are achieved with a minimum of redundancy.

The FDIC's report of examination will be for internal purposes only, although a copy will be provided to the OTS. If the FDIC Board authorizes an enforcement action, however, the FDIC would then transmit its examination report to the institution. As the OTS and FDIC regional staffs prepare the concurrent reports, they should attempt to resolve all significant differences of opinion concerning the thrift's overall condition and the enforcement or corrective action needed.

Non-substantive differences in examination interpretations, conclusions, and report comments will be resolved in favor of the OTS. Substantive differences

in examination conclusions, that could lead to an enforcement action by the FDIC if not pursued by OTS, and that cannot be resolved by the EIC, should be referred to the OTS and FDIC regional offices for resolution at the time such differences are identified. Such differences will be resolved by the regional offices within ten working days. If resolution of such differences cannot be achieved following full review and communication between the regional offices within the appropriate time frame, these matters should be referred to the FDIC Director of Supervision and OTS Deputy Director for Regional Operations, where it is expected that such differences will be resolved within ten working days. If the differences remain unresolved, the FDIC should so notify the OTS of the differences and that corrective action authorization will be sought from the FDIC Board.

The OTS examination report should be prepared using thrift GAAP as the appropriate accounting treatment for financial accounting information. OTS regulations, policies, and directives should be used in reaching examination conclusions. For supervisory purposes however, the OTS and FDIC should use valuation techniques in the review and classification of other real estate assets and real estate loans that are consistent with the practices of the other federal banking agencies.

Board of Directors Meeting

The OTS and FDIC should jointly participate in examination-related meetings with management and directors during and at the conclusion of joint examinations.

All actions taken by the FDIC Board should be directly communicated to the institution by the FDIC.

The OTS and FDIC should routinely copy one another on institution-related correspondence. The OTS should ensure that the FDIC is provided copies of examination-related correspondence.

Specialty examinations are the responsibility of the OTS.

Examination work papers, loan line sheets, report pages, and findings should be shared, but retained by the OTS following completion of the examination, with interim examination access provided to the FDIC upon request.

Nothing in the joint OTS/FDIC agreement should

alter the normal examination and supervisory cooperation with state authorities.

Enforcement Actions

The OTS regional director should endeavor to advise the FDIC regional director of, and solicit written input on, all proposed OTS enforcement actions. The FDIC will have ten working days to respond. The OTS regional director should provide the FDIC regional director with a copy of the final enforcement document within five working days of execution, together with a written explanation of the reasons why any of the FDIC-recommended actions were not taken.

The FDIC regional director should endeavor to advise the OTS regional director of, and solicit written input on, all proposed FDIC enforcement actions. The OTS will have ten working days to respond. The FDIC regional director should provide the OTS regional director with a copy of the final recommendation to Washington, together with a written explanation of the reasons why any of the OTS-recommended actions were not taken.

Regional staff should resolve significant differences in the type and content of corrective and enforcement actions. If significant issues cannot be resolved, the issues should be submitted to the FDIC Director of Supervision and the OTS Deputy Director for Regional Operations. It is expected that such differences will be resolved within fifteen working days. If the differences cannot be resolved, the FDIC can recommend backup action to the FDIC Board. The FDIC should not direct corrective action until such action has been authorized.

Divestiture Plans/Brokered Deposit Waivers

The FDIC regional director should advise the OTS regional director of its intent to approve or deny, or otherwise exercise its independent authority with respect to a divestiture plan or brokered deposit waiver, prior to communication with the thrift institution.

The FDIC should coordinate its efforts with the OTS to ensure that such actions are consistent within approved capital plans, as long as conditions at the savings association have not changed (in the opinion of FDIC) to any material extent since the capital plans were approved.

Capital Plans

The OTS addresses inadequate capital in savings associations through the capital plan process, as required by FIRREA, or through the impositions of an individual minimum capital requirement, or through other enforcement action.

The OTS regional director should provide copies of capital plans, revisions and modifications, requests for additional information, and proposed actions to the FDIC regional director for review and comment. Unless the FDIC regional director submits to the OTS regional director a written objection to the capital plan within thirty working days, the FDIC will normally not take backup enforcement action or action on divestiture plans that are contrary to the action taken by the OTS in approving a capital plan.

Differences between the FDIC regional director and the OTS regional director with respect to capital plans should be resolved at the regional office level. Significant issues that cannot be resolved by the regional directors should be referred to the OTS Deputy Director for regional operations and the FDIC Director of Supervision. If such issues remain unresolved, the OTS may then approve the capital plan, but the FDIC may pursue backup enforcement action to resolve its concerns.

If an institution fails to comply with its capital plan for two consecutive quarters (failure as defined in the conditions to the capital plan), the OTS agrees to initiate a capital directive or other enforcement action unless good cause is shown for not doing so.

Examination Objectives

To determine overall objectives for the on-site examination and ensure that objectives are met.

To determine the refined examination scope, the procedures to be used, and the depth of testing and verification needed.

To determine personnel requirements, organize and coordinate human resources to attain optimum efficiency, and to supplement formal education programs through on-the-job training.

To facilitate clear and open communications between field staff, office staff, other regulatory bodies, and institution personnel.

To provide useful information for future planning, scoping, monitoring, and management.

Scoping Procedures

(Generally conducted off site)

1. Prior to the examination, review the objectives, strategies, and preliminary scope outlined in the Regulatory Plan for the institution.

2. If applicable, coordinate with the **OTS compliance examiner in charge and the** FDIC examiner in charge or FDIC regional office for joint scoping.

3. Review the most recent scoping materials available (those available in advance of the examination). A list of scoping materials is provided in this Handbook Section.

4. Ensure that the PERK requests on the summary schedule are tailored to the institution and type of examination. Send the PERK to the institution at least four weeks prior to the examination start date.

5. Establish and document the detailed scope for the examination.

Note: For branch reviews, an evaluation of internal controls, management reporting, and audit coverage and findings should be made before establishing scope. It may be necessary to perform only limited reviews of branches, particularly if credit files and other information can be sent to the office where the examination is being conducted.

6. Finalize staffing and examination dates.

7. Arrange for transport of supplies, computers, reference materials, etc., to the examination site.

8. Coordinate travel plans. If the EIC cannot arrive before or with the assistants, instructions for starting the job must be given to those arriving first.

9. Prepare assignments for assistants (before commencing the examination, if possible). If helpful, prepare time management forms. Contact assistants and inquire whether they have scheduled any time off or will be attending any training seminars during the estimated duration of the examination.

The EIC should perform the following procedures as soon as possible to ensure that the examination is properly managed:

1. Meet with the CEO or designee as soon as possible at the beginning of the examination. Refer to this Handbook Section for a list of recommended items to discuss. Notify the appropriate office when the examination has begun.

2. Discuss assignments with assistants including estimated time for completion. Determine that assistants are aware of the objectives stated in the Regulatory Plan and the specific activities included in the scope. Assist in establishing the scope for each of the assigned programs. Reiterate that material revisions to planned scopes should be approved by the EIC first.

3. Ensure that information requested from management is received and disseminated on a timely basis. Discuss problems with the appropriate contact person and establish revised deadlines for receipt of materials, if necessary.

4. Coordinate and oversee the review of materials obtained from the institution that might give an early indication of a need to change the scope (refer to this Handbook for a list of these materials). This review *should include* the following procedures:

a. Review the institution's current Thrift Financial Reports (TFR) and Management Information Systems (MIS) reports and determine if there have been significant changes in the level of capital, lending or investment activity, earnings, or nonperforming assets.

b. Review the minutes of the board of directors' meetings. Focus attention on significant changes in the institution's business activities (lending, investment, joint ventures, etc.). Assess the level of oversight performed by the directorate.

c. Discuss with management any changes in key management, the directorate, or business activities that have occurred since the preceding examination. Also inquire as to any proposed changes or pending litigation that may affect earnings and capital.

d. Determine through a review of correspondence,

discussions with management, and other appropriate verification methods if corrective action has been taken relative to:

- Prior examination report comments and supervisory letters;
 - Independent auditor's exceptions;
 - Internal auditor's exceptions; and
 - Any enforcement actions and directives.
- e. Determine if there are written policies governing key areas such as lending and investments. Evaluate the adequacy of new or revised written policies, procedures, and strategic plans. These guidelines should adequately address safety and soundness (including internal controls), profitability, and compliance with laws and regulations.
5. Make adjustments to the examination scope as necessary, but preferably as early as possible. Notify a supervisor if significant changes are anticipated in scope, staffing needs, duration, etc.
6. Throughout the examination:
- Review the work flow, findings, and actual versus budgeted time on a regular basis.
 - Take appropriate actions to prevent ineffective use of time, including on-the-job training and reassignment of activities, if necessary.
 - Discuss all items of concern with the assistants to ensure that accurate information is presented at the closing conference with the CEO.
 - Keep the supervisor and the CEO abreast of any developing significant issues.
 - Determine that all examination work is being prepared in accordance with policies, including: work papers, interim reports, exception sheets, draft comments, report pages, time sheets, administrative reports, and transmittal file information. Refer to Thrift Activities Regulatory Handbook Section 070, Overall Conclusions, for a discussion of report content.
7. If additional verification, review, or analysis of

any areas are needed, complete or assign the completion of selected procedures from Levels I, II, and III for the particular area of review. (Refer to instructions for selecting Levels I, II, and III procedures in Thrift Activities Regulatory Handbook Section 011, Program Use.)

8. Ensure that the *Objectives* of this Handbook Section have been met.

Examination Closing Procedures

1. Schedule a closing conference and incorporate comments in the report. (For further instructions see Thrift Activities Regulatory Handbook Section 070, Overall Conclusions, and Section 071, CAMEL Ratings.) Notify all attendants of the closing conference date and time, preferably with the use of an agenda.

2. If appropriate, ensure that recommendations for any necessary administrative actions are made. Prepare a confidential memorandum if deemed necessary.

3. Complete the Report of Examination (ROE) and Examination Data System (EDS) (refer to Thrift Activities Regulatory Handbook Section 040, EDS/ROE). Complete the Time and Planning Summary form or other time reporting forms for actual time. (It is recommended that all totals in the examination report and other reports be verified with an adding machine or with the use of spreadsheet software.) Refer to Section 070, Overall Conclusions, and the ROE Instructions manual.

4. Ensure that the General File (GF) is completed.

5. Review work papers for completeness, proper indexing, date stamping, etc. (This responsibility usually can be delegated. The EIC should have reviewed the work paper content and conclusions and initialed all work papers before the conclusions and comments were finalized.)

6. Prepare, if appropriate, evaluations of assistants. Recommend formal instruction and on-the-job experience that would further each of their careers. Discuss the evaluation with the individual.

7. **Complete a PERK summary schedule and summarize any other** information that will be useful to the planning, scoping, and control of future exami-

nation activities and include in the Continuing Examination File (CEF). Ensure that the CEF is completed.

8. Update the Regulatory Plan with any significant data obtained from the examination so that the plan is always current.

9. Transmit the completed report and return work papers and related files to the regional office in accordance with established procedures.

References

Office of Thrift Supervision Bulletins

RB 4a Supervisory Review Process

Closely Related Thrift Activities Regulatory Handbook Sections

Section 010 Handbook Use
Section 011 Program Use
Section 040 EDS/ROE
Section 045 Regulatory Action Data System
 (RAD)
Section 050 Regulatory Plan
Section 070 Overall Conclusions
Section 071 CAMEL Ratings

OTS Report of Examination Instructions Manual for
Safety and Soundness Examinations

Regulatory Limitations Worksheet

Docket # _____

Examination As Of Date _____

Institution Name _____

Institution management may use this worksheet to maintain a record of regulatory limitations and examiners may use this worksheet to assist in the examination of an institution. Numbered footnotes appear on the last page.

Limitations for Savings Associations

Limitations Based on¹
Assets² \$ _____

Item	Description	Percent Limitation	Regulation/(Statute) Section ³	Amount Invested	Percent of Assets
1.	Commercial and Other Loans: Aggregate investment in commercial loans, leases, and/or letters of credit (to include overdraft loans on demand accounts pursuant to \$545.47 and commercial loans not secured by real estate made by a related organization). ^{4, 5}	10%	(5(c)(2)(A)) 545.46 545.47 545.48 545.53(b)(2)	\$ _____	_____ %
2.	Investments in Personal Property: Aggregate investment in tangible personal property for rental or sale.	10%	(5(c)(2)(C))	\$ _____	_____ %
3.	Consumer Loans and Certain Securities: Aggregate investment in consumer loans and/or tangible personal property leases for personal, family or household purposes. Includes commercial paper and corporate debt securities. Amounts in excess of 30% may be made only directly to the original obligor and the association may not pay any finder referral, or other fee to any third party.	35%	(5(c)(2)(D)) 545.50 545.53(b)(2))	\$ _____	_____ %
4.	Education Loans.	5%	(5(c)(3)(A))	\$ _____	_____ %

Regulatory Limitations Worksheet

Docket # _____

Limitations for Savings Associations			Limitations Based on		
			Assets		
Item	Description	Percent Limitation	Regulation/(Statute) Section ³	Amount Invested	Percent of Assets
5.	Government Obligations: Investment in the obligations of a state, territory, possession or political subdivision in which the association's home office or a branch office is located (without regard to investment rating).	1%	545.72(b)	\$ _____	_____ %
6.	Small Business Investment Companies: Investment in small business investment companies formed pursuant to §301(d) of the Small Business Investment Act of 1958.	1%	(5(c)(4)(D)) 545.80	\$ _____	_____ %
7.	Community Development Investments: Investment in community developments receiving assistance under Title I of the Housing and Community Development Act of 1974.	2%	(5(c)(3)(B)) 545.41	\$ _____	_____ %
8.	Investment Companies: Investment in any open-end management investment company where the investments consist of commercial paper and corporate debt securities.	5%	(5(c)(1)(Q)) 545.76	\$ _____	_____ %
	Company Name			\$ _____	_____ %
	_____			\$ _____	_____ %
	_____			\$ _____	_____ %
	_____			\$ _____	_____ %

Regulatory Limitations Worksheet

Docket # _____

Limitations for Savings Associations			Limitations Based on		
			Assets		
Item	Description	Percent Limitation	Regulation/(Statute) Section ³	Amount Invested	Percent of Assets
9.	Investment in State Housing Corporations:		545.43		
			563.95(a)		
			(5(c)(1)(P))		
	(a) Aggregate	30%		\$ _____	_____ %
	(b) Located outside the institution's home state	10%		\$ _____	_____ %
10.	Inter-American Savings and Loan Bank:				
	(a) Investment in Inter-American Savings and Loan Bank.	Lesser of: 1/4 of 1% or \$100,000	545.73(b)	\$ _____	_____ %
	(b) Aggregate investment in Inter-American Savings and Loan Bank and investments in loans guaranteed under the Foreign Assistance Act of 1961.	1%	(5(c)(4)(C)) 545.73(c)	\$ _____	_____ %
11.	Service Corporations — Aggregate outstanding investment:		545.74(d)(1)		
	(a) Investments in capital stock and/or securities.			\$ _____	_____ %
	(b) Nonconforming loans.			\$ _____	_____ %
	(c) Conforming loans that exceed the amounts in No. 22(b).			\$ _____	_____ %
	Total Investment (see (d) below).	3%		\$ _____	_____ %
	(d) Designated amount exceeding 2% of assets must be used to serve primarily community, inner-city or community development purposes.			\$ _____	_____ %

Regulatory Limitations Worksheet

Docket # _____

Limitations for Savings Associations			Limitations Based on		
			Assets		
Item	Description	Percent Limitation	Regulation/(Statute) Section ³	Amount Invested	Percent of Assets
12.	Forward Commitments: The aggregate of outstanding forward commitments, as defined in §563.173(a)(1); to purchase securities, as defined in §563.173(a)(2); and short put options, as defined in §563.175(a)(10) and (11).				
	(a) Total capital of association is less than or equal to 3% of assets.	5%	563.173(c)(2)	\$ _____	_____ %
	(b) Total capital of association is greater than 3% but less than 5% of assets.	10%	563.173(c)(2)	\$ _____	_____ %
	(c) Total capital of association is equal to or greater than 5% of assets.	15%	573.173(c)(2)	\$ _____	_____ %
13.	Options Transactions:				
	(a) Investments in long positions as defined in §563.175(a)(7).		563.175(b)(1)	\$ _____	_____ %
	(b) Investments in short call positions as defined in §§563.175(a)(1) and (11).		563.175(b)(2)	\$ _____	_____ %

Regulatory Limitations Worksheet

_____ Docket #

Limitations for Savings Associations			Limitations Based on ¹ Long-Term Assets with Fixed Interest Rates		
			\$ _____		
Item	Description	Percent Limitation	Regulation/(Statute) Section ³	Amount Invested	Percent of Long-Term Assets
14.	Futures Transactions: Engagement in long positions in interest-rate futures.	May be entered into and main- tained only to the extent the institution's firm forward commitments exceed 10% of long-term assets with fixed interest rates.*	563.174(b)	\$ _____	_____ %

* For purposes of this section, long-term assets are those having remaining terms to maturity in excess of five years.

Regulatory Limitations Worksheet

_____ Docket #

Limitations for Savings Associations			Limitations Based on ¹			
			Assets ² \$ _____ or Total Capital \$ _____			
Item	Description	Percent Limitation	Regulation/(Statute) Section ³	Amount Invested	Percent of Assets	Percent of Total Capital
15.	Aggregate outstanding balance of the non-guaranteed portions of all loans made under the Farmers Home Administration (FmHA) Rural Housing Program.	Greater of (a) 2.5% of assets, or (b) 50% of total capital	545.38(b)	\$ _____	_____ %	_____ %
16.	Unsecured construction loans for primarily residential real estate.	Greater of: (a) 5% of assets, or (b) total capital	(5(c)(3)(D))	\$ _____	_____ %	_____ %
	Check limitation used:					
	_____ % of assets	_____ total capital				

Regulatory Limitations Worksheet

_____ Docket #

Limitations for Savings Associations			Limitations Based on Total Capital \$ _____		
Item	Type of Investment	Percent Limitation	Regulation/(Statute) Section ³	Amount Invested	Percent of Total Capital
17.	Aggregate of nonresidential real estate loans and/or leases. ⁴	400%	(5(c)(2)(B)(i)) 545.35(b) 545.53(b)(2)	\$ _____	_____ %
18.	Investment in real estate for office and related facilities.	100%	545.77	\$ _____	_____ %
19.	Investment in any one issuer of state securities (other than general obligations).	10%	(5(c)(1)(H))	\$ _____	_____ %
20.	Credit Exposure: Interday credit exposure to an individual correspondent that is undercapitalized.	25%	206.4	\$ _____	_____ %
	Name of correspondent(s)				

21.	Service Corporations — Investment in conforming loans:				
(a)	Own or hold with power to vote not more than 10% of capital stock.	An amount not to exceed total capital	545.74(d)(2)(i)	\$ _____	_____ %
(b)	Own or hold with power to vote more than 10% of capital stock.	50% of the amount authorized in (a) above	545.74(d)(2)(ii)	\$ _____	_____ %

Regulatory Limitations Worksheet

_____ Docket #

Limitations for Savings Associations			Limitations Based on ¹ General Reserves, Surplus and Undivided Profits		
			\$ _____		
Item	Description	Percent Limitation	Regulation/(Statute) Section ³	Amount Invested	Percent of General Reserves, Surplus and Undivided Profits
22.	Investment in State Housing Corporations:				
	Investment in loans and other obligations allowable if general reserves, surplus and undivided profits aggregate more than 5% of withdrawable accounts. Obligations, other than loans, must be rated in one of the four highest grades in the most recently published rating or approved by the Office of Thrift Supervision.	100%	563.95(b)	\$ _____	_____ %
	Investment in loans and obligations of any one state housing corporation.	25%	563.95(b)		
	Housing Corporation(s)				
	_____			\$ _____	_____ %
	_____			\$ _____	_____ %
	_____			\$ _____	_____ %
	_____			\$ _____	_____ %

Regulatory Limitations Worksheet

_____ Docket #

Limitations for Savings Associations Limitations Based on¹
Total Loans
\$ _____

Item	Description	Percent Limitation	Regulation/(Statute) Section ³	Amount Invested	Percent of Total Loans
23.	Business Development Credit Corporations: Investments in, loans to, and commitments to loan to, any business development credit corporation incorporated in the state in which the home office of the association is situated; provided such investments, loans and commitments are consistent with state statutes and the association is in compliance with capital standards prescribed under § 5(t) of the HOLA.	Lesser of \$250,000 or 1/2 of 1%	(5(c)(4)(A))	\$ _____	_____ %

Footnotes

- 1 To the extent it is legally empowered to do so, any savings association may invest and borrow up to the percentage limitation indicated, provided such investments and borrowings are permitted under part 545 and/or the Home Owners' Loan Act (HOLA) of 1933, as amended.
- 2 Use total unconsolidated assets as the asset base.
- 3 References in the regulation to 12 U.S.C. § 1464 are the same as Section 5 of the HOLA. For example, 12 U.S.C. § 1464(c)(1)(b) is the same as § 5(c)(1)(b) of the HOLA.
- 4 To the extent an institution is required to meet its obligations under a suretyship agreement, the entire obligation shall be treated as an extension of credit for purposes of percentage of assets and loans to one borrower limitations.
- 5 Applicable limitations include only the unguaranteed portion of unsecured Small Business loans.

Internal Controls Questionnaire

Preliminary Examination Response Kit
Office of Thrift Supervision

Examination As of Date _____

Docket # _____

Prepared By _____

Institution Name _____

<p>This questionnaire is to be completed by a management official of the institution and tested by the regulator. Management must provide the regulator with an adequate written explanation of all "No" answers, with an appropriate reference to the question, or supply copies of applicable written procedures. If a question is not applicable to the institution, respond with NA.</p> <p><i>Cash and Cash Items</i></p> <p>1. Are checks rejected when the collected balance of the customer's demand deposit account is not sufficient to cover the item?</p> <p>2. Are there procedures in place for officer approval of overdrafts?</p> <p>3. Are all personnel who have cash approval and disbursement authority required to take annual vacations?</p> <p>4. Does an independent officer review all overdraft activity?</p> <ul style="list-style-type: none"> • Who is assigned responsibility? <p>5. Are controls in effect to prevent withdrawals of uncollected funds?</p> <p>6. Are returned items previously deposited here promptly recorded on the books?</p> <ul style="list-style-type: none"> • Are adequate procedures in effect to control their ultimate disposition? <p>7. If a petty cash fund is maintained, are all additions and withdrawals documented? ..</p> <ul style="list-style-type: none"> • Is the fund balanced periodically? <p>8. Are overages and shortages properly recorded in a cash over and short account?</p>	Yes	No	<ul style="list-style-type: none"> • Are records maintained showing the person involved? <p>9. Have procedures been adopted to prevent the use of liquid assets as compensating balances or collateral for personal loans of officers, directors, or employees?</p> <p>10. Are cash items appropriately recorded in the general ledger?</p> <p><i>Institution (Official) Checks</i></p> <p>1. Are two signatures (signer and approver) required on institution (official) checks? ..</p> <ul style="list-style-type: none"> • Who is authorized to sign? <p>2. Are unsigned blank checks in the possession of an officer or employee who does not have singular signature authority?.....</p> <ul style="list-style-type: none"> • Who is the officer or employee? <p>3. Is the supply of unused checks periodically reconciled to shipping invoice by persons without signature authority?</p> <ul style="list-style-type: none"> • Who does the reconciliation? <p>4. Are duly authorized voucher checks filled out with amount and payee information before being dually signed?</p> <p>5. Are paid (cancelled) checks reviewed for proper signatures and reconciled to vouchers?</p> <p>6. Are outstanding checks periodically reconciled to vouchers and liability accounts?</p>	Yes	No

Internal Controls Questionnaire

Preliminary Examination Response Kit
Office of Thrift Supervision

Docket # _____

		Yes	No			Yes	No
7. Are all outstanding six month old institution checks periodically transferred to a liability account?				10. Are customer and/or bank verification call-backs required for voice wire transfers above an established dollar threshold? _____			
<i>Wire Transfers</i>							
1. Does the institution have written wire transfer procedures?				• Who is responsible for verification? _____			
2. Are the procedures being consistently followed?				11. Are all securities-transaction-related transfers made only after the verified receipt of securities (delivery versus payment)?			
3. Does someone supervise the wire transfer activity to ensure compliance with the written procedures?				12. Are wire transfers balanced at least daily by a person independent of the transaction approval or processing?			
• Who is responsible for supervision? ... _____				13. Does the institution have a dual entry/release system for wire transfers? That is:			
4. Are customer wire transfer requests required to be in writing?				• For computerized systems, does one person input transfer instructions and another person verify and release the transfer?			
• Is a permanent record maintained listing the date, amount of the transfer, person authorizing the transfer, test code or Personal Identification Number, and detailed instructions?				• For institutions that call in wire instructions to a correspondent bank that performs the wire transfer, does one authorized person originate the call; then does the correspondent bank have a second person make a call-back to a second authorized person to verify the authenticity of the wire instructions?			
5. Is access to test codes restricted to only those employees authorized to handle wire transfer requests?				14. Have unusual, frequent, or sizable transfers been made offshore to Privacy Act Havens (such as Panama, Switzerland, the Netherlands Antilles, or the Cayman Islands)?			
6. Are the test codes held in a secure place?							
7. If code words are used, are they changed periodically?							
8. Is the transfer of uncollected funds strictly forbidden?							
9. Is dual officer approval required over large dollar transfers?							
• Who is authorized and what are the limits?							

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<i>Investments and Securities</i>					
1. Is documentation supporting account entries, broker's advice, and journal entries received and maintained by a person independent of the authorized trading officer?			9. Does the institution engage in reverse repurchase agreements and lending of securities only with firms designated by the Federal Reserve Board as primary dealers in government securities?		
2. Does the institution maintain an investment security ledger or worksheet that details all securities held and all security transactions?			10. Are duties segregated so that persons executing transactions are prohibited from booking them?		
3. Are the security ledger totals for principal and accrued interest, balanced to the general ledger at least monthly by an independent person?			11. Are all securities transactions for delivery versus payment?		
4. Are procedures in effect to ensure that all income due on the investment security portfolio is collected promptly?			12. Are "free" deliveries prohibited in written contracts with depositories and safekeeping agents unless approved by two senior officers?		
5. Are procedures in effect that will indicate any relationship between brokers who purchase securities for the association and institution officers, directors, or employees?			13. Are securities held on the premises of the institution under dual control?		
6. If the board of directors has authorized an officer to have sole authority to purchase and sell securities, is the authority limited to fixed dollar amounts, above which a second officer must approve the transaction prior to its commitment?			<i>Lending</i>		
<ul style="list-style-type: none"> • Who is authorized and what are the limits? 			<i>General Lending</i>		
7. Are brokers/dealers prohibited from having discretionary trading authority?			1. Does the institution have and adhere to a written schedule of fees and rates being charged on new loans?		
8. Are all orders placed only with broker/dealers not affiliated with investment advisors retained by the institution?			2. Does institution policy limit the number or amount of loans involving any individual borrower or contractor?		
			<ul style="list-style-type: none"> • Is there a procedure of internal review to ensure compliance with the above policy by a person or persons who are independent of the loan approval function? 		
			3. If the institution maintains a reserve for loan loss accounts, are procedures in effect to periodically review and document the adequacy thereof?		
			<ul style="list-style-type: none"> • Is this function performed by persons independent of the loan approval function? 		

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4. Does the institution defer loan fees in accordance with generally accepted accounting principals (GAAP), and not recognize fees as current-period income?				2. Are all notes and other loan documents kept in a vault or fire resistant cabinet and under a sign-out control system?			
5. Are lending officers prohibited from authorizing loan disbursements?				3. If additional collateral is held, is it safeguarded?			
6. Is credit information either obtained or verified by persons independent of the loan officer?				• Is a record maintained of such collateral?			
7. Are lending authorities, granted by the board of directors, setting tiered dollar limits for individuals, coapproval limits for committees, and higher limits for approval by the board of directors?				4. Is written acknowledgment obtained from the borrower for the pledging of savings accounts or the assignment of life insurance policies?			
8. Is there a record system that lists the total of outstanding credits and commitments (direct and indirect) for each borrower?				5. Are advance loan payments adequately controlled if they are not immediately credited to the loan account?			
<u>Construction Lending</u>				6. Does the institution have a policy of cross collateralization of security properties with respect to major or investment borrowers?			
1. Are inspectors rotated at least every third inspection and for final draws?				7. Are periodic adjustments to adjustable-rate mortgage loans tested for compliance with the terms of the note?			
2. If inspectors are not rotated, are review inspections performed by their supervisor?				8. Does the institution have written collection policies and procedures that are approved by the board of directors?			
3. Is there segregation of duties between inspection and disbursement functions? ..				9. Do collectors document the contact with borrowers and indicate promised action? ..			
4. Does the institution prohibit disbursing loans in cash or to third parties?				10. Are there procedures that ensure that the necessary hazard, flood, and other insurance coverages are maintained throughout the life of the loan?			
5. Are paid bills and lien waivers compared with items listed for disbursements?				<u>Accrued Interest Receivable</u>			
6. Are safeguards in effect to ensure that sufficient funds always remain available to complete construction?				1. Does the institution perform tests to determine that it is receiving the interest it is entitled to?			
<u>Loan Servicing and Recordkeeping Functions</u>							
1. Are advances supported by written evidence or reinspection of property?							

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2. Does a person, independent of the cash receipt and bookkeeping for interest receivable, perform an analysis to determine if the yield on mortgages and investments actually received is in line with the weighted-average coupon rate of such assets?	<input type="checkbox"/>	<input type="checkbox"/>	2. Are tests made periodically by personnel who are not responsible for the loans in process accounts to determine propriety of disbursements?	<input type="checkbox"/>	<input type="checkbox"/>
• Is such analysis documented?	<input type="checkbox"/>	<input type="checkbox"/>	Commercial Lending	<input type="checkbox"/>	<input type="checkbox"/>
3. Are accounting entries for accrued interest receivable supported by proper explanations evidencing the nature and purpose of each entry and signed by a responsible individual?	<input type="checkbox"/>	<input type="checkbox"/>	1. Are borrower's and guarantor's financial statements updated at least annually?	<input type="checkbox"/>	<input type="checkbox"/>
Advance Payments by Borrowers for Taxes and Insurance	<input type="checkbox"/>	<input type="checkbox"/>	2. Is the collateral evaluated by qualified individuals?	<input type="checkbox"/>	<input type="checkbox"/>
1. Is each escrow (impound) account analyzed at least once a year to ensure that the payments will cover the disbursement(s)?	<input type="checkbox"/>	<input type="checkbox"/>	3. Is collateral inspected periodically to ensure sufficient value is maintained?	<input type="checkbox"/>	<input type="checkbox"/>
2. If this analysis results in a revision of monthly payments, is the revision made promptly and the borrower notified?	<input type="checkbox"/>	<input type="checkbox"/>	4. Is collateral released only upon the approval of an officer or committee having a lending limit greater than or equal to the value of the collateral being released?	<input type="checkbox"/>	<input type="checkbox"/>
3. Are borrowers informed at least annually of the balance in their account and the most recent year's transactions in that account?	<input type="checkbox"/>	<input type="checkbox"/>	5. If collateral is being released upon payment on the loan, is the release made only upon receipt of collected funds?	<input type="checkbox"/>	<input type="checkbox"/>
4. Do statements indicate that borrower's disputes regarding the balances of their escrow accounts be sent to internal audit or a department independent of escrow transactions?	<input type="checkbox"/>	<input type="checkbox"/>	Other Loans (unsecured, mobile homes, etc.)	<input type="checkbox"/>	<input type="checkbox"/>
Loans in Process	<input type="checkbox"/>	<input type="checkbox"/>	1. Are the institution's procedures adequate to ensure compliance with the requirements of any government agency insuring or guaranteeing the loan?	<input type="checkbox"/>	<input type="checkbox"/>
1. Are loans in process reviewed periodically to determine whether they are being disbursed on a timely basis and in accordance with the terms of loan agreements?	<input type="checkbox"/>	<input type="checkbox"/>	2. Is an adequate loan register maintained? The register, as a minimum, should contain the following: loan number, loan amount, date of loan or date of purchase, dealer, recourse or repurchase provisions, interest rate, and term.	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	3. Are all loan applications processed and the notes initialed by personnel who do not handle cash?	<input type="checkbox"/>	<input type="checkbox"/>

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4. Are the functions of collecting and processing receipts, and preparing delinquency lists performed by employees not connected with the granting or acquisition of loans?			<ul style="list-style-type: none"> Does the dealer submit financial and operating statements monthly? 		
5. Are liens and other documents, including titles, promptly recorded?			<ul style="list-style-type: none"> Does the institution retain title or lien control? 		
6. Are there procedures that provide for board of directors approval of charge-offs and subsequent recoveries?			<ul style="list-style-type: none"> Do floor plan agreements provide for periodic reductions (curtailments) in outstanding unit loan balances? 		
7. If additional or side collateral is held for unsecured loans, is it adequately documented and safeguarded and is a proper record maintained?			10. For dealer financing, does the dealer application include the following:		
8. Is reference made to the FHA publication that lists companies and individuals who have not properly performed under FHA programs?			<ul style="list-style-type: none"> business address and location of all sales and storage lots? names of all manufacturers represented and general description of units stocked? a statement as to whether each manufacturer subscribes to the Truth in Invoicing Practices Statement adopted by the Manufactured Housing Institute? a statement as to the willingness of the dealer to sign recourse or repurchase agreements? name and percentage of ownership of all persons with interests in the dealership? 		
9. Floor planning loans:			<i>Credit Quality Review</i>		
<ul style="list-style-type: none"> Are unannounced inventory inspections made on a rotating basis at least every 30 days? Do the inventory inspections include, as a minimum, the following: serial number verification of unit, inventory of equipment and furnishings, condition and location of unit, and units sold out of trust or rented? — Are records maintained of floor plan inspections? — Are demos actually inspected at a subsequent date, if necessary? — Are inspectors rotated or accompanied by a supervisor or auditor? . Are trade-ins inspected and appraised for wholesale value? 			1. Does the institution have a credit quality review program?		
				2. Does credit quality review include testing for compliance with regulation, institution policy, officer lending limits, and institution underwriting standards?	
				3. Does credit quality review include classification or grading of assets?	

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4. Are the findings of the persons responsible for credit quality review reported directly to the board of directors?				5. Do internal audit reports suggest actions to correct internal control or procedural deficiencies?			
<i>Deposit Account Loans</i>				6. Is there a subsequent review to ascertain that suggestions for corrective actions have been implemented?			
1. Are sufficient controls in effect to prevent a loan approver from disbursing loan proceeds?				7. Does the internal auditor report to or receive salary reviews by the audit committee or board of directors?			
2. Does the note include an escalator clause that provides for an increase in the interest rate if the interest rate is increased on the deposit account serving as security?				<i>Real Estate Owned and In Judgment</i>			
3. If a multiple form (note, withdrawal slip, etc.) is used, is each form requiring the borrower's signature signed separately rather than by a carbon impression?				1. Are routine legal procedures followed that will result in a valid title to the property and evidence of such title?			
4. Does withdrawal of pledged funds require a supervisory override?				2. Is real estate acquired by the institution promptly valued?			
5. Are interest computations checked periodically as to accuracy?				3. Is a current valuation used to establish the sales price of property?			
6. Are procedures in effect to ensure that the total loan and accrued interest does not exceed the balance amount of the deposit account?				4. Are properties physically inspected at periodic intervals?			
<i>Internal Audit</i>				5. Do such inspections indicate the condition of the property and occupancy status?			
1. Does the institution have an internal audit program?				6. Are there maintenance procedures in effect to ensure that properties will retain their market value?			
2. Do the internal audit programs contain written, specific instructions for audit procedures to be performed?				7. Are separate subsidiary records maintained for each parcel showing items capitalized, expenses, rentals, etc.?			
3. Are internal audit reports reviewed by the board of directors or the audit committee?				8. Are subsidiary ledgers for the individual properties balanced to the general ledger at least monthly?			
4. Does the audit committee consist only of outside directors?				9. Are separate files maintained for each parcel of real estate owned and are such files complete?			
				10. Are controls maintained over the receipt of rental income?			

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	Yes	No		Yes	No
			<i>Fixed and Other Assets</i>		
11. Does the institution's advertising for the sale or rental of real estate owned comply with the provisions contained in the Department of Housing and Urban Development's advertising guidelines?			1. Are invoices retained in support of all additions to fixed asset accounts?		
12. Are agents who collect rents and manage properties bonded?			2. Is the accounting department informed of any major retirement of fixed assets?		
13. Are security deposits properly controlled?			3. Is a detailed record kept of fixed assets owned by the institution?		
14. Are procedures in effect to ensure that hazard insurance is maintained?			4. Are depreciation schedules supporting each asset or class of assets retained by the institution?		
<i>Real Estate Held for Investment</i>			5. Does the institution charge depreciation and amortization expenses at least quarterly?		
1. Are separate subsidiary records maintained for each parcel showing items capitalized, expenses, rentals, etc.?			6. Does the institution retain evidence of valid titles for all properties owned?		
2. Are subsidiary ledgers for the individual properties balanced to the general ledger at least monthly?			7. If the institution has rented space in its buildings, does it have adequate control over the recording and collection of rental income and the control and recording of expense?		
3. Are separate files maintained for each parcel of real estate owned?			8. Are there recordkeeping procedures to ensure that adequate supporting documentation is maintained for other assets acquired?		
• Are such files complete?			9. Are journal entries prepared that show clearly the nature and purpose of each charge to expense from deferred accounts and evidence of approval by authorized personnel?		
4. Is adequate control maintained over rental income?			10. Does the institution have effective control procedures for all large disbursements to ensure their propriety?		
5. Are agents who collect rents and manage properties bonded?			11. Does the institution maintain subsidiary records for the various other asset accounts?		
6. Are security deposits properly controlled?					
7. Are adequate controls maintained over all disbursements?					
8. Does a senior officer compare disbursements to determine whether they are for budgeted purposes and in line with the overall budget?					
• If not, is the board of directors notified promptly of budget overruns?					

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<i>Deposit Accounts</i>				6. Are significant amounts of account fees waived?			
1. Is there any limitation on the amount of withdrawal that may be paid without officer approval?				<i>Deferred Credits</i>			
• If so, what is the amount? _____				1. Does the institution maintain records supporting the recognition of profits resulting from the sale of real estate owned?			
2. Are procedures in effect to ensure the timely and accurate completion of the appropriate signature cards upon the opening of deposit accounts?				2. Does the institution maintain records supporting loan acquisition credits deferred and earned, by semiannual periods?			
3. Are duties segregated so that persons opening new certificate accounts do not have sole control over the receipt of cash, account data entry, and the preparation of certificates or receipts?				3. Are loan origination fees amortized in accordance with FASB 91?			
4. Interest on Deposit Accounts:				<i>Other Liabilities</i>			
• Are the deposit accounts balanced before and after posting of interest to ascertain correctness of total amount posted?				1. Does the institution maintain a detailed inventory or subsidiary records for the various other liability accounts?			
• For those institutions that maintain books on the accrual basis:				2. Are periodic reviews of the activity in other liability accounts made by a designated officer?			
— Are general ledger subsidiary accounts maintained for each class of accounts?				• Who is assigned responsibility?			
— Is an analysis made periodically to determine the adequacy of accrued interest earned and unpaid? .				<i>Capital (Reserves, Undivided Profits, etc.)</i>			
— Are differences between the accrual balance and the interest paid investigated and adjusted?				1. Are all transfers to and from the capital accounts reviewed by management and approved by the board of directors?			
• Does the institution reasonably estimate accruals for reporting purposes?				2. Are all transactions involving the capital accounts clearly explained and adequately documented?			
5. Are policies in effect to maintain compliance with state escheat laws?				3. Are stockholder records kept under control of the corporate officer designated in the bylaws or by the board of directors? ...			
				4. Are surrendered stock certificates promptly canceled in a manner that will prohibit their reuse?			

Mortgage Banking QuestionnairePreliminary Examination Response Kit
Office of Thrift SupervisionReview Period _____ through _____
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Institution Name _____

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This questionnaire is to be completed for the thrift and for all subsidiaries engaged in mortgage banking during the examination period. Supporting schedules should be typed and attached. If a request is not applicable for a particular item, respond with "Not applicable." If no mortgage banking activities, including small sales or servicing for others, have occurred during the review period, so indicate.

General

1. Provide an organization chart of the mortgage banking operations including management, loan production offices, subsidiaries, servicing, and computer support. Provide a brief explanation of the thrift's and each subsidiary's mortgage banking objectives compared to their actual operations and how the combined mortgage banking operations affected the thrift. Attach copies of the budgets and any strategic plans for the mortgage banking operations.
2. How are the income and expenses of the mortgage banking operation tracked separately from the thrift's portfolio lending and servicing programs? How are management and other general and administrative (G&A) expenses allocated and reported? Who is responsible for these records?
3. Provide the amount and number of originations for each mortgage banking operation during the examination period broken down by mortgage type (FHA, VA, conventional 30 year, ARM, etc.).
4. What software systems are used to track the production pipeline, monitor the warehouse inventory, and handle servicing operations? Are these systems operated in house or in a service bureau? Is a switch in software being considered or has one recently been completed?

Mortgage Originations

5. Were FNMA, FHLMC, and GNMA underwriting and documentation requirements followed for all mortgages originated, purchased, sold, or exchanged and, if not, why? Did all mortgages intended for the thrift's portfolio meet those criteria except for dollar limits? If not, provide a summary list of mortgages that did not meet those criteria and why.

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6. Describe the quality control procedures and criteria for originated, purchased, and table-funded mortgages. Who is responsible for these records?

 7. What is the compensation or commission structure on originated mortgages for the mortgage banking operation? How does it differ with the thrift's compensation program for portfolio mortgages? What internal controls exist to ensure appropriate amounts are paid?

 8. Have records been kept for monitoring the cumulative amount of mortgages purchased or table funded by source and the related default rates and losses? If so, who is responsible for these records?

 9. Have records been kept to identify mortgages originated or purchased for re-sale to separate them from mortgages intended for the portfolio? If so, who is responsible for these records?

 10. What is the percentage of originated mortgages that were placed into portfolio versus those sold or held for sale by product type (FHA, VA, conventional 30 year, ARM, etc.)? How do these ratios compare to the prior examination period?

Interest-Rate Risk

11. What type of records have been kept for monitoring pipeline and warehouse interest-rate risk? Who is responsible for these records and who is on the distribution list to see them?

12. Have rate locks been provided to prospective borrowers? If so, what was the duration and how was the interest-rate risk hedged?

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13. Has the board of directors adopted a limit on unhedged interest-rate-risk exposure in the pipeline and warehouse and if so, what are those limits? Are those limits strictly enforced? Provide a copy of the latest management and board reports showing pipeline and warehouse exposure.

Mortgage Sales and Purchases

14. Provide a summary list by correspondent of mortgage sales, purchases, and exchanges including table-funded mortgages. The list should show the dollar amounts bought, sold, or exchanged by mortgage type (FHA, VA, conventional 30 year, ARM, etc.).
15. Which sale, purchase, or exchange transactions including table funding were between the thrift and its subsidiaries or affiliates? Which of these sales were with servicing rights released? Were these transactions at documented market prices and terms, and if so, who has these records?
16. Summarize the representations and warranties that were provided to mortgage purchasers during the period (such as meeting certain underwriting standards, etc.) except for FNMA, FHLMC, and GNMA sales and swaps.
17. Have any mortgage sales been made with full or partial recourse (either written or verbal) other than for delinquency during the first 90 days after sale or for standard representations and warranties? If so, provide a list of the buyers, dates, amounts, mortgage types, and recourse type (include yield agreements, swap or repurchase agreements, FNMA/FHLMC recourse servicing, and any vague or unstated recourse requirements or periods). Exclude GNMA servicing.
18. Have any sold mortgages been repurchased or swapped for other mortgages or have any losses or settlements on sold mortgages been paid during the examination period except for normal servicing and foreclosure costs? If so, list the amount of each repurchase, swap, or loss paid and the reason.

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19. Were custodians, escrow agents, or other intermediaries used for the transfer of all mortgages purchased or sold? If not, what was done to control the risks?

Mortgage Servicing Rights

20. Provide a summary list of all sales and purchases of mortgage servicing rights by correspondent showing the total amount of servicing bought and sold by type (FHA, VA, conventional 30 year, ARM, etc.), any recourse or reserve provisions, wholesale or flow servicing percentages, and average price. Describe how the servicing was evaluated prior to sale or purchase and who is responsible for this record and continuing valuations.

21. For all purchased mortgage servicing rights (PMSR) and excess servicing fee receivables (ESFR) provide a list by group of the original amount of the asset booked and when, its current market value for PMSR, its current book value for PMSR and ESFR, and the last date those values were determined. Also, have available the related information for the underlying mortgages including types, balances, interest rates, original discount rates, and maturities.

22. Does the total amount currently capitalized for capitalized servicing assets exceed 1.5 (150 bp) of the underlying mortgages? If so, list the groups of mortgages in excess of 1.5% and the percentages currently capitalized. Provide a list of all ESFR and PMSR writedowns as well as adjustments to amortization during the examination period.

23. Has a cost/benefit analysis been performed since servicing purchases were made and if so who is responsible for it? Were any of the purchases of mortgage servicing rights hedged against prepayment risk and if so how?

Audit and Other

24. Is there an independent internal auditor responsible for reviewing the mortgage banking operations? If so, who is it? Provide a copy of the last audit report. If not, what procedures exist to ensure

Mortgage Banking Questionnaire

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sound internal control of the mortgage banking function?

- 25. Has the thrift or any of its mortgage banking subsidiaries been suspended or had corrective action of any type taken against it by FNMA, FHLMC, GNMA, FHA/HUD, VA, any state governmental body or agency, any private mortgage insurance company, or any investor? If so, explain the circumstances and current status. Provide a copy of the latest FNMA, FHLMC, GNMA, and investor audits.

- 26. List the dollar amount by servicer of mortgages that are owned by the thrift or its subsidiary but are serviced by another servicer? What does the thrift do to monitor that servicing and those servicers and who is responsible for those records?

- 27. Has the thrift signed a cross-default or guarantee agreement covering a mortgage banking subsidiary or an affiliate under the thrift's holding company on behalf of Ginnie Mae or any other investor? If so, attach a copy of that agreement.

- 28. Who is responsible for the accounting records of the thrift's and any subsidiary's mortgage banking operations?