

**Fourth Quarter (July 1 – September 30, 2008)  
and Fiscal Year Summary Report**

**Office of Inspector General's Survey of Farm Credit System (FCS) Institutions  
Regarding the Agency's Examination Function**

**2008**

**Introduction**

Based on the interface FCS institutions had with the Agency's examination function during the period July 1 – September 30, 2008, OE identified seven FCS institutions that were in a position to provide meaningful survey responses. (Institutions are surveyed no less frequently than every 18 months and, generally, no more frequently than every 12 months.)

The OIG sent surveys to those seven institutions on October 29. A follow-up e-mail was sent to nonresponding institutions on December 1. Of the seven institutions surveyed, all submitted completed surveys.

Four responses to the survey issued for the 3<sup>rd</sup> quarter were received subsequent to the 3<sup>rd</sup> quarter report being issued and one survey response from the 1<sup>st</sup> quarter are included in this 4<sup>th</sup> quarter report. As a result, this report covers a total of twelve responding institutions.

The OIG will continue to provide an e-mail report to you based on each fiscal year quarter-end, i.e., December 31, March 31, June 30, and September 30, so that you may timely take whatever action you deem necessary to address the responses. The September 30 report will continue to include fiscal year summary data.

The survey asks respondents to rate each survey statement from "1" (Completely Agree) to "5" (Completely Disagree). The rating options are as follows:

Completely Agree	1
Agree	2
Neither Agree nor Disagree	3
Disagree	4
Completely Disagree	5

There is also an available response of "6" (Does Not Apply) for each survey statement.

Narrative responses are provided verbatim, except that any identifying information has been removed and any grammatical or punctuation errors may have been corrected. Narrative in "brackets" is explanatory information provided by the OIG based on communication with the institution.

**Survey Results – 4<sup>th</sup> Quarter FY 2008**

1. Average numerical responses to survey statements 1 - 10 ranged from 1.8 to 2.3

Average Numerical Responses to Survey Statements 1 - 10			
4 <sup>th</sup> Qtr	3 <sup>rd</sup> Qtr	2 <sup>nd</sup> Qtr	1 <sup>st</sup> Qtr
1.8 – 2.3	1.7 – 2.3	1.7 – 2.2	1.9 – 2.2

FY 2007 average numerical response was 1.7 – 2.2.

2. The average response for all survey statements was 2.0

Average Response for all Survey Statements			
4 <sup>th</sup> Qtr	3 <sup>rd</sup> Qtr	2 <sup>nd</sup> Qtr	1 <sup>st</sup> Qtr
2.0	1.9	1.9	2.0

FY 2007 average response was 1.9.

Two institutions rated five survey statements as a "4" (Disagree) and two as a "5" (Completely Disagree). The corresponding comments to the "4" (Disagree) and "5" (Completely Disagree) ratings are shaded in yellow and green, respectively.

The majority of narrative comments to survey statements 1 - 10 were positive. However, there were several negative comments that should provide opportunities for you to refine examination methodology and communications, and examiner training.

Survey item 11a asks for feedback on the most beneficial aspects of the examination process. Consistent with prior quarters' survey responses to this survey item, many very positive comments were provided about the examiners and the examination process.

Survey item 11b asks for feedback on the least beneficial aspects of the examination process. Many of these comments should also provide opportunities for you to refine examination methodology and communications, and examiner training.

Survey item 12 asks for any other comments. There were more negative comments than normal in response to this survey item.

**Survey Results – Fiscal Year 2008 Summary**

For fiscal year 2008, the OIG issued 78 surveys and received 70 completed surveys (plus three from the fourth quarter of fiscal year 2007). This is a 90 percent response rate, which is very favorable. The response rate for 2005, the last full year the OIG surveyed prior to updating the survey, was only 63 percent. The improvement is due to the revised format of the survey; the survey's ease of completion and submission, i.e., all electronic; and our new follow-up process on surveys distributed.

See the Appendix summarizing numerical responses to all ten survey statements for all 73 responding institutions.

## **Responses to Survey Statements 1–10**

### **Risk-Based Examination Process**

**Survey Statement 1:** The scope and depth of examination activities focused on areas of risk to the institution and were appropriate for the size, complexity, and risk profile of the institution.

**Average Response:** 2.1 (1.7 third quarter, 1.8 second quarter, 2.0 first quarter)

**Comments:**

- The exam team focused on the largest credits both in terms of how well the institution performed its due diligence and reporting to the board and the quality of the credits. We feel the management team and board benefitted from the exam team insight. The specific policy review areas were adequate and we understand the necessity, but in terms of impact the credit and operations review is of most significance to us.
- For our size and risk profile it was overkill.

**Survey Statement 2:** The examination process helped the institution understand its authorities and comply with laws and regulations.

**Average Response:** 1.9 (2.1 third quarter, 2.0 second quarter, 2.1 first quarter)

**Comments:**

- Verbal presentation, particularly in Executive Session, did not match the tone of the written report. The verbal comments in the Executive Session seemed condescending. There did not seem to be complete agreement on all issues between the EIC and the other FCA representative.
- The EIC went out of their way to explain the other Credit Needs regulation and its use in the YBS program.
- The exam team and EIC reviewed compliance with regulations and had suggestions for improvements/additions/edits to the institution's current policies.
- Exam resulted in discouraging any type of innovation. Demoralizing for staff. I felt we knew answers to certain areas better than examiners. We spent time getting them to understand.
- Examiners assisted in interpretation of regulations on issue discovered in internal credit review.

**Survey Statement 3:** The results and recommendations of the examination process covered matters of safety and soundness, and compliance with laws and regulations.

**Average Response:** 1.8 (1.9 third quarter, 1.8 second quarter, 2.0 first quarter)

**Comments:**

- Very thorough.

**Survey Statement 4:** Examiners were knowledgeable and appropriately applied laws, regulations, and other regulatory criteria.

**Average Response:** 1.9 (1.9 third and second quarters, 2.1 first quarter)

**Comments:**

- If the regulator has very specific ideas about what constitutes appropriate scope and eligibility standards, why do they not make those clear rather than have the board establish policies that are later found to be unacceptable?
- We have the benefit of an experienced EIC and the exam team appeared knowledgeable and appropriate in how they applied the laws, regulations, and other regulatory criteria.
- Loan participations very common in our state but examiners from other districts not familiar with it.
- Very professional.

### Communications and Professionalism

**Survey Statement 5:** Communications between the Office of Examination staff and the institution were clear, accurate, and timely.

**Average Response:** 1.9 (1.9 third quarter, 1.8 second quarter, 2.0 first quarter)

**Comments:**

- After hearing that the association planned to ask for a reconsideration of removal from discount of one loan, the EIC said not to bother. EIC asserted there was no way the examiners' conclusions could be challenged or reversed.
- Communication was extremely thorough and complete.
- Professional staff that communicate well.
- Good clear communications.

**Survey Statement 6:** Examination communications included the appropriate amount and type of information to help the board and audit committee fulfill their oversight responsibilities.

**Average Response:** 2.3 (1.9 third quarter, 1.7 second quarter, 2.1 first quarter)

**Comments:**

- Verbal communication was flawed. There was extensive discussion with the board in executive session on matters that could only be understood and dealt with by management. Later discussion with management disputes much of what was said in executive session. Management should have been present. Also, EIC should assume report has been read and understood ahead of time by board members. There was too much rehashing of what was in the written report.
- We agree that the information was good. We felt like the conference call with the Audit committee and Board Chairman and later the formal closeout with the board took more time than needed. Even though the EIC remarked that a particular exam issue was not found in our institution, the EIC took considerable time to share what had been seen in other parts of the country that the EIC thought was inappropriate and encouraged our board not to venture into those areas of lending.
- Annual Board/Audit Committee review sessions are helpful.

**Survey Statement 7:** The examiners were organized and efficiently conducted examination activities.

**Average Response:** 2.1 (1.9 third quarter, 2.2 second quarter, 1.9 first quarter)

**Comments:**

- The onsite examination and examiners were organized and efficient but the offsite process moves a major portion of the time requirements and workload to institution staff. This may benefit FCA but it certainly does not benefit the institution.
- Well organized. Again, we would like to get to the “meat” of the discussion sooner. The executive session was good with the board and it would be beneficial if the opening portion of the closeout had moved through the exam more quickly. All the board members had read the report and were prepared to ask questions.
- They were organized but being from different districts created different feedback on similar issues.
- Examiners were courteous and respectful of staff time commitments.

**Survey Statement 8:** Examiners fairly considered the views and responses of the board and management in formulating conclusions and recommendations.

**Average Response:** 2.0 (2.0 third quarter, 1.7 second quarter, 2.2 first quarter)

**Comments:**

- Verbal presentation misrepresented and quoted management's views out of context, which disappointed and surprised the board.
- Onsite examiners were very willing to have an open dialogue on issues.
- FCA did not meet with the board prior to the exam conclusion.
- We have good rapport and mutual respect with the EIC and feel EIC and examiners were open to considering board and management input.

**Best Practices and Regulatory Guidance**

**Survey Statement 9:** The results and recommendations of the Office of Examination's national examination activities (e.g., information technology, finance, credit, etc.) and its reports on identified best practices have assisted your institution.

**Average Response:** 2.1 (2.3 third quarter, 2.0 second and first quarters)

**Comments:**

- Required actions do not deal with best practices.
- Although the recommendations were relatively minor we can always improve. Observations on credit and institution risk profile were appropriate.
- Reg. Compliance NEA in 2008 included a couple good recommendations to update our policies.

**Survey Statement 10:** FCS-wide guidance from the Office of Examination (e.g., bookletters, informational memoranda, etc.) was timely, proactive and helpful.

**Average Response:** 1.9 (2.0 third quarter, 1.8 second quarter, 1.9 first quarter)

**Comments:**

- Yes, they are appropriate.
- The Board would appreciate early notice of issues being experienced by other institutions in their audits. However, the Board is not seeking confidential specific information from other institutions.

### Responses to Additional Survey Items 11a, 11b, and 12

**Survey Item 11a:** What aspects of the examination process did you find **most** beneficial?

- Good communications with Lead Examiner; Opportunity to pull together documentation and respond to some questions just prior to on-site visit saved time and was very effective.
- Written report.
- Even though the examination did not warrant it, the EIC came onsite for a Board closeout that was informative and helpful. During the exam the examiners were very open in their discussion of issues.
- Financial aspects.
- The process was well balanced and beneficial in all aspects.
- The report was good and the executive session provided an opportunity for good interaction between the board and EIC.
- Access to examiners was positive.
- Regulatory compliance issues.
- Feedback on scope and eligibility questions.
- The communication in both the planning and reporting phases of the exam has been very good.

**Survey Item 11b:** What aspects of the examination process did you find **least** beneficial?

- Generally, regulatory requirements (administrative) vary between examiners based upon their individual review. For example, we have never included a specific target amount for surplus in our business plan because we target the capital ratios, but this time we were written up for not having a target amount.
- Verbal presentation was flawed. There was extensive discussion with the board in executive session on matters that could only be understood and dealt with by management. Later discussion with management disputes much of what was said in executive session. Management should have been present. Also, EIC should assume report has been read and understood ahead of time by board members. There was too much rehashing of what was in the written report.
- The offsite work shift to the institution does not benefit us.
- Discussion and findings on loans that FCA considered development loans.
- We would have liked to get to the “meat” of the report and Q&A quicker.
- Examiner doing a 6-7 hr interview with VP of Ops on Technology area.
- Issue regarding governance – Compliance to regulations – appears to be personal “wording” preferences rather than substance.

**Survey Item 12:** Please provide any additional comments about the examination process and related communications.

- Examiners were efficient and got in and out in a short amount of time and were respectful of staff time constraints.
- Verbal report was emotional and inaccurate.
- There is no consistency within FCA on what kind of loans the agency sees as acceptable. Anything that looks like a development loan is out while other institutions can come into our territory and make a \$1,000,000 rural investment bond to a hospital or a dentist office. I would love to have further discussions on this.
- I feel examiners are not all on the same page. Some examiners are familiar with certain practices while others have limited knowledge. Institution management spends days working with them trying to get them to understand something that has been occurring for years in other institutions.
- Very good process.
- Some aspects of the examination on the nominating and election policies seemed to have gone beyond safety and soundness issues and been more operational in nature. The timing of some of the communications on the nominating policies was not ideal. However, the subsequent meetings which FCA initiated on the subject were effective in allowing concerns and issues to be presented.
- We based our survey responses on the national examination process and our ongoing working relationship with the Office of Examination.



APPENDIX

Results for FY 2008 of Numeric Responses to Questions 1-10

Question	PERCENTAGE OF TOTAL RESPONSES												Total No. Responses	Average Response
	Completely Agree (1)		Agree (2)		Neither Agree nor Disagree (3)		Disagree (4)		Completely Disagree (5)		Does Not Apply* (6)			
1	17	23.29%	52	71.23%	1	1.37%	3	4.11%	0	0.00%	0	0.00%	73	1.90
2	12	16.44%	49	67.12%	9	12.33%	3	4.11%	0	0.00%	0	0.00%	73	2.00
3	15	20.55%	55	75.34%	2	2.74%	1	1.37%	0	0.00%	0	0.00%	73	1.80
4	18	24.66%	45	61.64%	5	6.85%	5	6.85%	0	0.00%	0	0.00%	73	2.00
5	26	35.62%	37	50.68%	4	5.48%	4	5.48%	2	2.74%	0	0.00%	73	1.90
6	15	20.55%	51	69.86%	2	2.74%	1	1.37%	2	2.74%	2	2.74%	73	1.90
7	20	27.40%	39	53.42%	8	10.96%	5	6.85%	1	1.37%	0	0.00%	73	2.00
8	18	24.66%	44	60.27%	6	8.22%	1	1.37%	2	2.74%	2	2.74%	73	1.90
9	8	10.96%	52	71.23%	10	13.70%	3	4.11%	0	0.00%	0	0.00%	73	2.10
10	13	17.81%	53	72.60%	7	9.59%	0	0.00%	0	0.00%	0	0.00%	73	1.90
<b>Total</b>	<b>162</b>		<b>477</b>		<b>54</b>		<b>26</b>		<b>7</b>		<b>4</b>			<b>2.00</b>

\* "Does Not Apply" responses not used in percentage calculations.

Total Number of Surveys Sent to Institutions: 78

Total Number of Surveys Received: 70 (plus 3 from FY 07)