

# Lending Overview Program

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## EXAMINATION OBJECTIVES

To identify the savings association's strategic lending plan and risk tolerance levels.

To identify the savings association's loan portfolio diversification strategies, and limitations and guidelines for credit concentrations.

To identify the asset quality programs that you should complete in order to properly evaluate the association's lending function.

To determine the adequacy of policies, practices, procedures, and controls regarding the association's lending activities.

To assess management's and lending personnel's conformance with established policies and procedures.

To assess the adequacy of the association's portfolio risk management practices and systems relative to the size and complexity of the association's lending activities.

To assess the accuracy, timeliness and sufficiency of management and board reports.

To evaluate the overall risk profile of the loan portfolio for credit quality, collectibility, and sufficiency of loan collateral.

To assess the scope and adequacy of the internal asset review function.

To ensure compliance with applicable laws and regulations.

To identify the overall strengths and weaknesses of the lending function(s).

To initiate corrective action when policies, practices, procedures, objectives, and/or internal controls are deficient or when violations of law or regulations are noted.

## EXAMINATION PROCEDURES

The examination procedures in this section help examiners accomplish the above objectives and to guide the asset quality review while avoiding duplication of effort within the various loan related programs by facilitating an exchange of information and examination results between examiner(s) responsible for various asset quality sections.

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## LEVEL I

1. Review the PERK information, the scoping material, and electronic loan data related to this area.
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2. Review the preceding report of examination and all lending-related exceptions noted and determine if management has taken appropriate corrective action.
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3. Discuss with management their lending activities, strategies, portfolio diversification and risk tolerance levels; future lending plans; portfolio risk management practices; and portfolio performance and quality, including any problems such as unusual delinquency levels, operating costs, etc., relating to its lending programs or activities.
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4. Determine that the savings association's lending policies comply with the following:

- Are in writing.
  - Are approved by the board of directors.
  - Consistent with the association's strategic plan, risk tolerance, staff expertise and diversification guidelines.
  - Promote safe and sound lending.
  - Are adequate for the type and volume of lending.
  - Where applicable, comply with 12 CFR § 560.100-101.
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5. Determine that the association's portfolio risk management practices:

- Provide for timely and accurate board reporting.
- Ensure that reviews and reports address all of the association's material risks.

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- Provide for strong internal controls.
  - Rely on appropriate key assumptions, data sources and procedures.
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6. In conjunction with the Examiner-In-Charge (EIC) or examiner(s) performing the board and management reviews (Examination Handbook Sections 310 and 330) determine who will review the loan committee minutes and board reports (or equivalent) and report their findings to the examiner(s) responsible for asset quality.
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7. Review the association's loan portfolio (including electronic loan data, Uniform Thrift Performance Report (UTPR), board reports, etc.) to determine the type and volume of lending that the association engages in and that the portfolio conforms to regulatory limits including loans to one borrower (LTOB), loan policies and diversification strategies.
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8. Be alert to:
- Identified problems within the various portfolios.
  - Portfolios with low credit scores, poor performance, or lax underwriting standards.
  - Concentrations of risk.
  - Internally classified loans.
  - Significant delinquency trends.
  - Any large increase in lending since the preceding examination.
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9. If the association has a mortgage banking operation, the EIC or assisting examiner(s) responsible for asset quality should coordinate the overlapping loan underwriting policies and procedures with the examiner(s) assigned the review of secondary marketing and servicing to avoid duplication of efforts and ensure an exchange of information.
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10. The EIC or assisting examiner(s) responsible for asset quality will coordinate the sampling of loans within each portfolio in accordance with [Section 209, Sampling](#), and the responsibilities of [Section 260, Classification of Assets](#).
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11. Determine that management reconciles all loan trial balances, including undisbursed loan proceeds (LIP) and contingency and escrow accounts to the general ledger and reviews reconciling items for reasonableness. Also, determine if there are any unusual or old unreconciled items.
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12. Compare electronic loan data balances with balances reported on the Thrift Financial Report. Have association personnel reconcile significant variances.
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13. In conjunction with the examiner(s) performing the review of the audit programs (Sections [340](#), [350](#), and [355](#)) and internal loan review system, review the scope and depth of the work performed by the various parties in the various lending areas, with specific emphasis on high-risk areas. Obtain a list of any deficiencies noted in their latest review.
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14. In conjunction with the examiner's review of the associations compliance management and compliance self-assessment programs, identify any material compliance deficiencies and their impact on the risk or overall quality of the lending operations.

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15. Based upon these results, assign the appropriate asset quality programs for review and completion. Specifically, the review should focus on evaluating the association's major areas of risk in order to assign a supportable asset quality rating and render a conclusion regarding the adequacy of loan policies, credit administration, internal asset review, and the allowance for loan and lease losses.

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## LEVEL II

1. Based upon Level I examination procedures of the asset quality programs assigned, expand scope when deemed necessary.

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2. Coordinate the completion of the various lending questionnaires for each program completed.

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3. Ensure that your review meets the Objectives of this and the other assigned asset quality handbook sections. State the findings and conclusions in the Report of Examination.

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## EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

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