

**First Quarter Fiscal Year 2009  
(October 1 – December 31, 2008)**

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

**Introduction**

Based on the interface FCS institutions had with the Agency's examination function during the period October 1 – December 31, 2008, the Office of Examination identified 12 FCS institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 12 institutions on February 2, 2009. A follow-up e-mail was sent to nonresponding institutions on March 5. Of the 12 institutions surveyed, 10 submitted completed surveys. This report covers those ten 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.

Prior to this quarter, the survey contained 10 survey statements for which respondents would provide ratings. Due to OE's cessation of national examination activities, the corresponding survey statement was deleted from the survey beginning with this quarter. Therefore, there are now 9 survey statements in the survey. The survey continues to contain an additional 3 open ended questions.

The survey asks respondents to rate the 9 survey statements 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. Any narrative in "brackets" is explanatory information provided by the OIG based on communication with the institution.

## **Survey Results – 1st Quarter FY 2009**

Average numerical responses to survey statements 1 - 9 ranged from 1.6 to 2.2.

The average response for all survey statements was 2.0

The majority of narrative comments to survey statements 1 - 9 were positive. However, there were a few negative comments that should provide opportunities for you to refine examination methodology and communications, and examiner training.

One comment I notice from quarter to quarter is that examiners ask for the same information more than once during an examination and many times they put a quick time requirement on receiving the information. You will see these comments in this survey in the color coded areas.

Survey item 10a 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 10b 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 11 asks for any other comments. All comments were positive.

## **Responses to Survey Statements 1–9**

### **Examination Process**

**Survey Statement 1:** The scope and frequency 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:** 2.0

**Comments:**

- The interim communications and the September 30, 2008 Report of Examination appropriately focused on the key risks of the institution.
- **Too much compliance focus, scope was mostly credit related, very little on other operations. (Institution rated this survey statement a “3”).**
- FCA focus has been in areas of governance and YBS and planning in recent years. While loan quality has been very good it still represents the most risk in an institution our size.

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

**Average Response:** 2.2

**Comments:**

- FCA has been very diligent in looking at policies and practices relative to the specific wording in regulation. **Tendency has been to tell what they've seen other institutions do and expect the same from our institution.** We've had substantial compliance to all regulations over the years so this has not been an issue for us. FCA did help us see we needed to change our Nominating Committee process according to regulations.
- Examiners did provide some clarification on certain items that may have been unclear.
- Current compliance issues including areas where clarification was needed were discussed with FCA throughout the examination period.
- The exam helped to comply with regulations.
- No specific discussions or questions pertaining to our authorities or compliance. (Institution rated this survey statement a "6".)

**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:** 2.0

**Comments:**

- The examination process appropriately included consideration of safety and soundness and compliance issues.
- **Heavy compliance focus, matters of safety and soundness were a small part of the exam scope. (Institution rated this survey statement a "3".)**
- Any findings covered matters dealing with regulations. Suggestions tend to deal with areas not necessarily associated with Safety and Soundness.

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

**Average Response:** 1.9

**Comments:**

- Some concern on knowledge of capital markets transactions of examiners. Many may have not been in this arena before and cannot look at as a typical loan.
- The examination team was experienced and professional. Team members had a solid understanding of the laws and regulations.

- It is obvious many of the examiners on our team need further development; however, they appear to be receiving appropriate supervision and training.
- Due to FCA turnover and new staff members there have been many trainees along on our reviews during the past few years. Understand there is a learning process involved. (Institution rated this survey statement a “3”.)

### Communications and Professionalism

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

**Average Response:** 1.6

**Comments:**

- We have a great relationship with FCA, but many communications from FCA require us to respond very quickly. It appears that most of the time it's because examiners were too busy to communicate earlier, but I don't know that. It's difficult to pull my staff away from their tasks to simply respond on a very quick basis to the many FCA's requests. We are not questioning FCA's need to obtain the info as we know it is all relevant. We just ask for more timely requests. Also, we receive requests for the same information multiple times. Again, we recognize the information is important and will provide anything asked for, but it is frustrating to have to provide the same info many different times. (Institution rated this survey statement a “3”.)
- Ongoing communication throughout the examination period was appropriate.
- No concerns. Very good communication, particularly from Lun and Patrick. (Names left in on purpose.)
- Cris Beckers did a very good job ensuring consistent communication was maintained. (Name left in on purpose.)

**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:** 1.9

**Comments:**

- Same comment as earlier. FCA tended to try to pull all institutions in the same category. Suggestions tend to be made for changes because they had seen it done that way in other institutions. (Institution rated this survey statement a “3”. This comment ties to the first bullet under survey statement 2.)
- The board has felt confused as to what FCA demands or expects from the board. In fact, almost every time FCA visits with the board, they ask the FCA representatives for more guidance on what expectations are. (Institution rated this survey statement a “3”.)

- Communication with the Board and Audit Committee was timely and appropriate. Examination communications provide value to the governance of our institution.

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

**Average Response:** 2.1

**Comments:**

- Again, multiple requests for the same information are frustrating. (Institution rated this survey statement a “3”.)
- The ongoing nature of examination activities involved frequent submission of information and materials to the examiners throughout the period and provided multiple feedback opportunities.
- Limited onsite work done in 2008.

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

**Average Response:** 1.9

**Comments:**

- We appreciate the opportunities provided to share views and pursue mutual understanding of examination issues, conclusions, and recommendations.
- Associate examiners are sometimes too focused on their question and points they want to make, reducing their attention on the answers or facts they are gathering in the interview.
- No significant findings in 2008 with National Compliance review or regulatory review.

**Survey Statement 9:** FCS-wide examination guidance from the Office of Examination (e.g., examination bulletins, informational memoranda, etc.) was timely, proactive and helpful.

**Average Response:** 2.2

**Comments:**

- Guidance regarding Office of Examination interpretations and current issues provides insight that is helpful. These communications provide an opportunity for institutions to assess their activities and best achieve compliance in a proactive manner. It is important that such guidance remains focused on regulatory compliance and safety and soundness issues.
- FCA provides notices to all interested parties regularly.

## Responses to Additional Survey Items 10a, 10b, and 11

**Survey Item 10a:** What aspects of the examination process did you find **most** beneficial?

- Being able to discuss with individual examiners the institution's philosophy on loans.
- Routine audits help management and the Board stay abreast of regulatory changes and make us aware of any errors in processes.
- Comments related to the audit committee functions.
- Simply that the examiners were willing to listen and discuss our business approaches.
- The most beneficial aspects have been communication about areas of focus and issues identified by the agency. This avoids surprises and provides for timely consideration of these matters.
- Internal Review evaluation, face to face time with examination staff to discuss issues, credit administration review.
- The exam provides the opportunity for institution management to assess how it's doing against regulatory requirements. And make necessary changes as a result.
- Direct interaction with examiners.
- Having Steve Mitchell on site was very helpful. He brings a balanced and experienced perspective. (Name left in on purpose.)

**Survey Item 10b:** What aspects of the examination process did you find **least** beneficial?

- Many of the young examiners could not find information in files, which would then be found by institution personnel. Takes up a lot of time.
- Recommendations as to content of Business Plan.
- **Too many requests for the same information** and the board desires more enhanced guidance on its role.
- With generally good conditions throughout the system during the past 5 years FCA tended to focus on some smaller or minor areas. More specific language recommendations on policy or procedure made vs. whether the intent of the regulations were being met in practice.
- Would appreciate being able to have some input/dialogue regarding dates examiners will be on site.

**Survey Item 11:** Please provide any additional comments about the examination process and related communications.

- In relation to the institution's relatively small size, excellent credit quality and fine financial position, the scope of the examination was adequate.
- We feel that the communication between examiners on review, our examiner in charge, as well as other FCA staff has improved which has benefitted the institution. Do want to see some additional comments on FIRS ratings regarding management as our institution has had a lower rating in the management section versus other ratings and has consistently outperformed its peers within the District.
- Overall, the examination process was professionally conducted and communications have been clear and effective.
- It is good to have examiners on site periodically to permit exchange of ideas and perspective.