Appendix A: Community Bank Risk Assessment System

Credit Risk

Credit risk is the current and prospective risk to earnings or capital arising from an obligor's failure to meet the terms of any contract with the bank or otherwise to perform as agreed. Credit risk is found in all activities in which success depends on counterparty, issuer, or borrower performance. It arises any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet.

Summary Conclusions:

The quantity of credit risk is:

☐ Low	☐ Moderate	☐ High

The quality of credit risk management is:

☐ Strong	☐ Satisfactory	☐ Weak

Examiners should consider both the quantity of credit risk and the quality of credit risk management to derive the following conclusions:

Aggregate credit risk is:

☐ Low	☐ Moderate	☐ High

The direction is expected to be:

☐ Decreasing	☐ Stable	☐ Increasing

Quantity of credit risk

Quantity of credit risk is derived from the **absolute amount** of credit exposure and the **quality** of that exposure. How much credit exposure a bank has is a function of:

- The level of loans and other credit/credit-equivalent exposures relative to total assets and capital and
- The extent to which earnings are dependent on loan or other credit/credit-equivalent income sources.

All else being equal, banks that have higher loans-to-assets and loans-to-equity ratios and that depend heavily on the revenues from credit activities will have a higher quantity of credit risk. The quality of exposure is a function of the risk of default and risk of loss in assets and exposures comprising the credit exposure. However, the risk of default and loss is not always apparent from currently identified problem assets. It also includes potential default and loss that will be affected by factors such as bank risk selection and underwriting practices, portfolio composition, concentrations, portfolio performance, and global, national, and local economic and business conditions.

To determine the quantity of credit risk, examiners must consider an array of quantitative and qualitative risk indicators. These indicators can be leading (rapid growth), lagging (high past-due levels), static (greater/less X%), relative (exceeds peer/historical norms), or dynamic (trend or change in portfolio mix). Many of these indicators are readily available from call report and UBPR information. Other indicators, such as a bank's risk tolerance or underwriting practices, are more subjective.

It is extremely important to note that banks can exhibit an increasing or high level of credit risk even though many, or all, traditional lagging indicators or asset quality indicators are low. Although a qualitative indicator may have the opposite effect on credit risk that a quantitative indicator has (the one may mitigate the other's effect), the indicators can also work together (the one may add to the other's effect). While each type of measure can provide valuable insights about risk when viewed individually, they become much more powerful for assessing the quantity of risk when viewed together.

Indicators

Examiners should consider the following evaluation factors, as appropriate, when assessing the quantity of credit risk. An assessment of low, moderate, or high should reflect the bank's standing relative to existing financial risk benchmarks and/or peer or historical standards, and should take into consideration relevant trends in risk direction. In considering the effect of trends on the quantity of risk, examiners must consider the rate of change as well as the base level of risk from which the change occurs. (For example, a modest adverse trend in a bank with a moderate quantity of credit risk should weigh more heavily on the examiner's decision to change the quantity of risk rating than a modest adverse trend in a low-risk bank.) These factors represent minimum standards, and examiners should consider additional factors as appropriate.

Low	Moderate	High
The level of loans outstanding is low relative to total assets.	The level of loans outstanding is moderate relative to total assets.	The level of loans outstanding is high relative to total assets.
The ratio of loans, to equity capital is low.	The ratio of loans to equity capital is moderate.	The ratio of loans to equity capital is high.
Growth rates are supported by local, regional and/or national economic and demographic trends, and level of competition. Growth has been planned for, and appears consistent with management and staff expertise and/or operational capabilities.	Growth rates exceed local, regional and/or national economic and demographic trends and level of competition. Some growth has not been planned or exceeds planned levels, and may test management and staff expertise or operational capabilities.	Growth rates significantly exceed local, regional and/or national economic and demographic trends, and level of competition. Growth was not planned or exceeds planned levels, and stretches management and staff expertise and/or operational capabilities. Growth may be in new products or with out-of-area borrowers.
The bank has well diversified income and dependence on interest and fees from loans and leases is low.	The bank is dependent on interest and fees from loans and leases for the majority of its income, but income sources within the loan portfolio are diversified.	The bank is highly dependent on interest and fees from loans and leases. Bank may target higher risk loan products for their earnings potential. Loan income is highly vulnerable to cyclical trends.
The ALLL as a percentage of both problem and total loans is high.	The ALLL as a percentage of both problem loans and total loans is moderate.	The ALLL as a percentage of both problem loans and total loans is low.
Loan yields are low **and** risk and returns are well balanced.	Loan yields are moderate. Imbalances between risk and return may exist, but are not significant.	Loan yields are high **and** reflect a balance between risk and return, and/or risk is disproportionately high relative to returns.

Quantity of credit risk - continued

Low	Moderate	High
Existing and/or new extensions of credit reflect conservative underwriting and risk selection standards. Policies are conservative and exceptions are nominal.	Existing and/or new extensions of credit generally reflect conservative to moderate underwriting and risk selection standards. Policies and exceptions are moderate.	Existing and/or new extensions of credit reflect liberal underwriting and risk selection standards. Policies either allow such practices or practices have resulted in a high amount of exceptions.
The bank has only occasional loans with structural weaknesses and/or underwriting exceptions. Those loans are well mitigated and do not constitute an undue risk.	The bank has an average level of loans with structural weaknesses and/or exceptions to sound underwriting standards consistent with balancing competitive pressures and reasonable growth objectives.	The bank has a high level of loans with structural weaknesses and/or underwriting exceptions that expose the bank to heightened loss in the event of default.
Underwriting policies incorporate conservative collateral requirements. Collateral valuations are timely and well supported.	Underwriting policies incorporate acceptable collateral requirements. Bank practices result in moderate deviations from these policies. A moderate number of collateral valuations are not well supported or reflect inadequate protection. Soft collateral (enterprise value, etc.) is sometimes used in lieu of hard collateral.	Collateral requirements are liberal, or if policies incorporate conservative requirements, there are substantial deviations. Collateral valuations are frequently unsupported or reflect inadequate protection. Soft collateral (enterprise value, etc.) is frequently used rather than hard collateral. Collateral valuations may not be obtained.
Loan documentation and/or collateral exceptions are low and have minimal impact on risk of loss.	The level of loan documentation and/or collateral exceptions is moderate, but exceptions are corrected in a timely manner and generally do not expose the bank to risk of loss.	The level of loan documentation and/or collateral exceptions is high. Exceptions are outstanding for inordinate periods and the bank may be exposed to heightened risk of loss.
The bank's portfolio is well diversified with no single large concentrations, and/or a few moderate concentrations. Concentrated exposures are generally not -correlated. Concentrations are well within internal limits.	The bank has one or two material concentrations, but these and other moderate concentrations are not correlated. Concentrations are in compliance with internal guidelines, but may be approaching the limits.	The bank has one or more large concentrations. These exposures may be correlated to each other or to moderate concentrations exposures in the portfolio. Concentrations may have exceeded internal limits.
Interest earned and not collected relative to total loans is low.	Interest earned and not collected relative to total loans is moderate.	Interest earned and not collected relative to total loans is high.
Change in portfolio mix is low and risk neutral or reducing.	Change in portfolio mix is moderate and may increase overall risk profile.	Change in portfolio mix is moderate to high or significantly increases portfolio risk.
ALLL coverage of problem and noncurrent loans and loan losses is high. Provision expense is stable.	ALLL coverage of problem and noncurrent loans is moderate, but provision expense may need to be increased.	ALLL coverage of problem and noncurrent loans is low. Special provisions may be needed to maintain acceptable coverage

Quantity of credit risk - continued

Low	Moderate	High
Quarterly and annual earnings are well in excess of net loan losses.	Earnings coverage of net loan losses is moderate. Annual earnings provide adequate coverage, but quarterly coverage may display some tightness.	Earnings coverage of net loan losses is low. Annual and quarterly earnings provide minimal or inadequate coverage.
The level of loans past due 30 to 89 days is low and the trend is stable.	The level of loans past due 30 to 89 days is moderate, the trend is stable or rising slowly.	The level of loans past due 30 to 89 days is high or is moderate and the trend is increasing rapidly. Level probably exceeds bank's plan.
The level of noncurrent loans (90 day + past due and nonperforming) is low and the trend is stable.	The level of noncurrent loans (90 day + past due and nonperforming) is moderate, the trend is stable or rising slowly.	The level of noncurrent loans (90 day + past due and nonperforming) is high or is moderate and the trend is increasing.
Classified loans represent a low percentage of loans and capital, and are not skewed to the more severe categories (doubtful or loss).	Classified loans represent a moderate percentage of loans and capital and are not skewed to the more severe categories (doubtful or loss).	Classified loans represent a high percentage of loans and capital or a moderate percentage of loans and capital and are growing or are skewed to the more severe categories (doubtful or loss).
Special mention loans represent a low percentage of loans and capital. Rating changes within criticized/classified are evenly distributed between upgrades and downgrades.	Special mention loans represent a moderate percentage of loans and capital. Downgrades are starting to predominate criticized/classified rating changes.	Special mention loans represent a high percentage of loans and capital. The majority of criticized/classified rating changes are downgrades.
Distribution of pass-rated credits is consistent with a conservative risk appetite. Migration trends within the pass category are balanced or favor higher ratings.	Distribution of pass-rated credits is consistent with a moderate-risk appetite. Migration trends within the pass category are starting to favor the lower or riskier pass ratings.	Distribution of pass-rated credits is heavily skewed toward the lower or riskier pass ratings. Downgrades predominate rating changes within the pass category.
Loan losses to total loans are low.	Loan losses to total loans are moderate.	Loan losses to total loans are high
Bank re-aging, extension, renewal, and refinancing practices raise little or no concern about the accuracy/transparency of reported problem loan, past due, nonperforming and loss numbers.	Bank re-aging, extension, renewal, and refinancing practices raise some concern about the accuracy/transparency of reported problem loan, past due nonperforming and loss numbers.	Bank re-aging, extensions, renewal, and refinancing practices raise substantial concern about the accuracy/transparency of reported problem loan, past due nonperforming and loss numbers.
Relevant economic factors are positive and stable or improving.	Relevant economic factors are positive but deteriorating.	Relevant economic factors are no longer positive and are deteriorating.
Quarterly/annual rate of unfavorable change in any of the above is low.	Quarterly/annual rate of unfavorable change in any of the above is moderate.	Quarterly/annual rate of unfavorable change in any of the above is high.

Quality of credit risk management

Examiners should use the following indicators, as appropriate, when assessing the quality of credit risk management. (For more comprehensive guidelines on portfolio management refer to the "Loan Portfolio Management" booklet of the *Comptroller's Handbook*.)

Strong	Satisfactory	Weak
Lending policies effectively establish and communicate portfolio objectives, risk tolerances, and loan underwriting and risk selection standards.	Policies are fundamentally adequate. Enhancements can be achieved in one or more areas, but are generally not critical. Specificity of risk tolerance, or underwriting and risk selection standards may need improvement to fully communicate policy requirements.	Policies are deficient in one or more ways and require significant improvement in one or more areas. They may not be sufficiently clear or are too general to adequately communicate portfolio objectives, risk tolerances, and loan underwriting and risk selection standards.
Bank effectively identifies, approves, tracks, and reports significant policy, underwriting, and risk selection exceptions individually and in aggregate.	Bank identifies, approves, and reports significant policy, underwriting, and risk selection exceptions on a loan-by-loan basis. However, little aggregation or trend analysis is conducted to determine the affect on portfolio quality.	Bank approves significant policy exceptions, but does not report them individually or in aggregate, and/or does not analyze their affect on portfolio quality. Policy exceptions may not receive appropriate approval.
Credit analysis is thorough and timely both at underwriting and periodically thereafter.	Credit analysis appropriately identifies key risks and is conducted within reasonable timeframes. Analysis after underwriting may need some strengthening.	Credit analysis is deficient. Analysis is superficial and key risks are overlooked. Credit data is not reviewed in a timely manner.
Internal or outsourced risk rating and problem loan identification systems are accurate and timely. They effectively stratify credit risk in both problem and pass-rated credits. They serve as an effective early warning tool, and support risk-based pricing, ALLL, and capital allocation processes.	Internal or outsourced risk rating and problem loan identification systems are adequate. Though improvement can be achieved in one or more areas, they adequately identify problem and emerging problem credits. The graduation of pass ratings may need to be expanded to facilitate early warning; risk-based pricing or capital allocation.	Internal or outsourced risk rating and problem loan identification systems are deficient and require improvement. Problem credits may not be identified accurately or in a timely manner; as a result, portfolio risk is likely misstated. The graduation of pass ratings is insufficient to stratify risk in pass credits for early warning or other purposes (loan pricing, ALLL, capital allocation).
Special mention ratings do not indicate any management problems administering the loan portfolio.	Special mention ratings generally do not indicate management problems administering the loan portfolio.	Special mention ratings indicate management is not properly administering the loan portfolio.

Quality of credit risk management - continued

Strong	Satisfactory	Weak
Management information systems (MIS) provide accurate, timely and complete portfolio information. Management and the board receive appropriate reports to analyze and understand the bank's credit risk profile. MIS facilitates exception reporting, and MIS infrastructure can support ad hoc queries in a timely manner.	Management information systems may require modest improvement in one or more areas, but management and the board generally receive appropriate reports to analyze and understand the bank's credit risk profile. MIS facilitates exception reporting, and MIS infrastructure can support ad hoc queries in a timely manner.	Management information systems have deficiencies requiring attention. The accuracy and/or timeliness of information may be affected in a material way. Portfolio risk information may be incomplete. As a result, management and the board may not be receiving appropriate or sufficient information to analyze and understand the banks credit risk profile. Exception reporting requires improvement, and MIS infrastructure may not support ad hoc queries in a timely manner.
Diversification management is active and effective. Concentration limits are set at reasonable levels. The bank identifies and reports concentrated exposures and initiates actions to limit, reduce or otherwise mitigate their risk. Management identifies and understands correlated exposure risks.	Diversification management may be improved but is adequate. Concentrated exposures are identified, and reported, but limits or other action/exception triggers may be lacking. Management may initiate actions to limit or mitigate concentrations at the individual loan level, but portfolio level actions may be lacking. Correlated exposures may not be identified.	Diversification management is passive or otherwise deficient. Bank may not identify concentrated exposures, and/or identifies them but takes little or no risk limiting, reducing or mitigating action. Management does not understand exposure correlations. Concentration limits, if any, may be exceeded or are frequently raised.
Management is effective. Loan management and personnel possess sufficient expertise to effectively administer the risk assumed. Responsibilities and accountability are clear, and appropriate remedial or corrective action is taken when they are breached.	Management is adequate to administer assumed risk, but improvements may be achieved in one or more areas. Loan management and personnel generally possess the expertise required to effectively administer assumed risks, but additional expertise may be required in one or more areas. Responsibilities and accountability may require some clarification. Generally appropriate remedial or corrective action is taken when they are breached.	Management is deficient. Loan management and personnel may not possess sufficient expertise and/or experience to effectively administer the risk assumed. Responsibilities and accountability may not be clear. Remedial or corrective actions are insufficient to address root causes of problems.
There is a clear, sound credit culture. The board and management's tolerance for risk is well-communicated and fully understood.	The intent of the credit culture is generally understood, but the culture and risk tolerances may not be clearly communicated or uniformly implemented throughout the institution.	Credit culture is lacking or is flawed in a material way. Risk tolerances may not be well understood.

Quality of credit risk management - continued

Strong	Satisfactory	Weak
Strategic and/or business plans are consistent with a conservative risk appetite and promote an appropriate balance between risk-taking and growth and earnings objectives. New products/initiatives are well-researched, tested, and approved before implementation.	Strategic and/or business plans are consistent with a moderate risk appetite. Anxiety for income may lead to some higher risk transactions. Generally there is an appropriate balance between risk-taking and growth and earnings objectives. New products/initiatives may be launched without sufficient testing, but risks are usually understood.	Strategic and/or business plans encourage taking on immoderate levels of risk. Anxiety for income dominates planning activities. Bank engages in new products/initiatives without conducting sufficient due diligence.
Staffing levels and expertise are appropriate for the size and complexity of the loan portfolio. Staff turnover is reasonable and allows for the orderly transfer of responsibilities. Training programs facilitate on-going staff development.	Staffing levels and expertise are generally adequate for the size and complexity of the loan portfolio. Staff turnover is moderate and may create some gaps in portfolio management. Training initiatives may be inconsistent.	Staffing levels are inadequate in numbers or skill level. Turnover is high. Bank does not provide sufficient resources for staff training.
Loan management and personnel compensation structures provide appropriate balance between loan/revenue production, loan quality, and portfolio administration, including risk identification.	Loan management and personnel compensation structures provide reasonable balance between loan/revenue production, loan quality and portfolio administration.	Loan management and personnel compensation structures are skewed to loan/revenue production. There is little evidence of substantive incentives and/or accountability for loan quality and portfolio administration.

Interest Rate Risk

Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. Interest rate risk arises from differences between the timing of rate changes and the timing of cash flows (repricing risk), from changing rate relationships among different yield curves affecting bank activities (basis risk), from changing rate relationships across the spectrum of maturities (yield curve risk), and from interest-related options embedded in bank products (options risk).

Summary Conclusions:

The quantity of interest rate risk is:

☐ Low	☐ Moderate	☐ High

The quality of interest rate risk management is:

☐ Strong	☐ Satisfactory	☐ Weak

Examiners should consider both the quantity of interest rate risk and the quality of interest rate risk management to derive the following conclusions:

Aggregate interest rate risk is:

☐ Low	☐ Moderate	☐ High

The direction is expected to be:

☐ Decreasing	☐ Stable	☐ Increasing

Quantity of interest rate risk indicators

Examiners should use the following indicators, as appropriate, when assessing the quantity of interest rate risk. It is not necessary to exhibit every characteristic in a column, or a majority of the characteristics, to be accorded the rating at the column's head.

Low	Moderate	High
No significant mismatches on longer-term positions exist. Shorter- term exposures are simple and easily adjusted to control risk.	Mismatches on longer-term positions exist but are manageable and could be effectively hedged.	Repricing mismatches are longer-term, and may be significant, complex, or difficult to hedge.
The potential exposure to earnings and capital is negligible under a +/- 200 basis point rate change over a 12-month horizon.	The potential exposure to earnings and capital is not material under a +/- 200 basis point rate change over a 12-month time horizon.	The potential exposure to earnings and capital is significant under a +/- 200 basis point rate change over a 12-month time horizon.
There is little or no exposure to multiple indexes that price assets & liabilities, such as prime, Libor, CMT, COFI, etc.[26]	The potential exposure to multiple indexes that price assets & liabilities, such as prime, Libor, CMT, COFI, etc., is reasonable and manageable.	The potential exposure to multiple indexes that price assets & liabilities, such as prime, Libor, CMT, COFI, etc., is significant. Positions may be complex.
Potential exposure to changes in the yield curve level and shape is absent or negligible.	Potential exposure to changes in the level and shape of the yield curve is not material and considered manageable.	Potential exposure to changes in the level and shape of the yield curve is significant. Positions may be complex.
The potential exposure to assets and/or liabilities with embedded options is low. Positions are neither meaningful nor complex.	The potential exposure to assets and/or liabilities with embedded options is not material. The impact of exercising options is not projected to adversely impact earnings or capital.	The potential exposure to assets and/or liabilities with embedded options is material. Positions may be complex and the impact of exercising options may adversely impact earnings or capital.
The volume and complexity of servicing assets is either insignificant or nonexistent, presenting virtually no exposure to changes in interest rates.	The volume and complexity of servicing assets is relatively modest and does not present material exposure to earnings and capital due to changes in interest rates.	The volume and complexity of servicing assets is material and potentially exposes earnings and capital to significant exposure from changes in interest rates.
The support provided by low-cost, stable nonmaturity deposits is significant and absorbs or offsets exposure arising from longer-term repricing mismatches or options risk.	The support provided by low-cost, stable nonmaturity deposits absorbs some, but not all, of the exposure associated with longer-term repricing mismatches or options risk.	The support provided by low-cost, stable nonmaturity deposits is not significant or sufficient to offset risk from longer-term repricing mismatches or options risk

[26] CMT - Constant Maturity Treasury, COFI - Cost of Funds Index

Quality of interest rate risk management

Examiners should use the following indicators, as appropriate, when assessing the quality of interest rate risk management.

Strong	Satisfactory	Weak
Board-approved policies are sound and effectively communicate guidelines for management of IRR, functional responsibilities, and risk tolerance.	Board-approved policies adequately communicate guidelines for management of IRR, functional responsibilities, and risk tolerance. Minor weaknesses may be evident.	Board-approved policies are inadequate in communicating guidelines for management of IRR, functional responsibilities, and risk tolerance.
Management demonstrates a thorough understanding of IRR. Management anticipates and responds appropriately to adverse conditions or changes in economic conditions.	Management demonstrates an adequate understanding of IRR and generally responds appropriately to adverse conditions or changes in economic conditions.	Management either does not demonstrate an understanding of IRR, or does not anticipate or respond appropriately to adverse conditions or changes in economic conditions.
Risk measurement processes are appropriate given the size and complexity of the bank's on- and off-balance-sheet exposures. Data input processes are effective and ensure the accuracy and integrity of management information. Assumptions are reasonable and well documented. IRR is measured over a wide range of rate movements to identify vulnerabilities and stress points.	Risk measurement processes are appropriate given the size and complexity of the bank's on- and off-balance-sheet exposures. Data input processes are adequate and ensure the accuracy and integrity of management information. Assumptions are reasonable. IRR is measured over an adequate range of rate movements to identify vulnerabilities and stress points. Minor enhancements may be needed.	Risk measurement processes are deficient given the size and complexity of the bank's on- and off-balance-sheet exposures. Material weaknesses may exist in data input and interest rate scenario measurement processes. Assumptions may not be realistic or supported. Deficiencies may be material.
Earnings-at-risk is measured as well as economic value-at-risk when significant longer-term or options risk exposure exists. No weaknesses are evident.	Earnings-at-risk is measured as well as economic value-at-risk when significant longer-term or options risk exposure exists. Minor enhancements may be needed.	Earnings-at-risk may not be appropriately measured. Economic value-at-risk may not be considered despite significant exposure to longer-term or options risk.
Risk limit structures provide clear risk parameters for risk to earnings and economic value consistent with the risk tolerance of the board. Limits reflect sound understanding of risk under adverse rate scenarios.	Risk limit structures for earnings and economic value are reasonable and consistent with the risk tolerance of the board.	Risk limit structures to control risk to earnings and economic value may be absent, ineffective, unreasonable or inconsistent with the risk tolerance of the board.

Quality of interest rate risk management - continued

Strong

Management information systems provide timely, accurate, and complete information on IRR to appropriate levels in the bank. No weaknesses are evident.

A well-designed, independent, and competent review function has been implemented to periodically validate and test the effectiveness of risk measurement systems. The process assesses the reasonableness and validity of scenarios and assumptions. The system is effective and no corrective actions are required.

Satisfactory

Management information systems are adequate, and provide complete information on IRR to appropriate levels of management. Minor weaknesses may be evident.

An acceptable review function is in place. The review periodically validates and tests the effectiveness of risk measurement systems including the reasonableness and validity of scenarios and assumptions. The review is independent and competent. Minor weaknesses may exist, but can be easily corrected.

Weak

Management information systems are inadequate or incomplete. Remedial actions will be necessary, as material weaknesses in MIS are evident.

A review function to periodically validate and test the effectiveness of risk measurement systems either does not exist or is inadequate in one or more material respects. The review may not be independent or completed by competent staff. Processes to evaluate the reasonableness and validity of rate scenarios and assumptions used may be absent or deficient.

Liquidity Risk

Liquidity risk is the current and prospective risk to earnings or capital arising from a bank's inability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Summary Conclusions:

The quantity of liquidity risk is:

☐ Low	☐ Moderate	☐ High

The quality of liquidity risk management is:

☐ Strong	☐ Satisfactory	☐ Weak

Examiners should consider both the quantity of liquidity risk and the quality of liquidity risk management to derive the following conclusions:

Aggregate liquidity risk is:

☐ Low	☐ Moderate	☐ High

The direction is expected to be:

☐ Decreasing	☐ Stable	☐ Increasing

Quantity of liquidity risk indicators

Examiners should use the following indicators, as appropriate, when assessing the quantity of liquidity risk. It is not necessary to exhibit every characteristic in a column, or a majority of the characteristics, to be accorded the rating at the column's head.

Low	Moderate	High
Funding sources are abundant and provide a competitive cost advantage.	Sufficient funding sources are available which provide cost-effective liquidity.	Funding sources and liability structures suggest current or potential difficulty in maintaining long-term and cost-effective liquidity.
Funding is widely diversified. There is little or no reliance on wholesale funding sources or other credit-sensitive funds providers.	Funding is generally diversified, with a few providers that may share common objectives and economic influences, but no significant concentrations. A modest reliance on wholesale funding may be evident.	Borrowing sources may be concentrated in a few providers or providers with common investment objectives or economic influences. A significant reliance on wholesale funds is evident.
Market alternatives exceed demand for liquidity, with no adverse changes expected.	Market alternatives are available to meet demand for liquidity at reasonable terms, costs, and tenors. The liquidity position is not expected to deteriorate in the near term.	Liquidity needs are increasing, but sources of market alternatives at reasonable terms, costs, and tenors are declining.
Capacity to augment liquidity through asset sales and /or securitization is strong and the bank has an established record in accessing these markets.	Bank has the potential capacity to augment liquidity through asset sales and /or securitization, but has little experience in accessing these markets.	The bank exhibits little capacity or potential to augment liquidity through asset sales or securitization. A lack of experience accessing these markets or unfavorable reputation may make this option questionable.
The volume of wholesale liabilities with embedded options is low.	Some wholesale funds contain embedded options, but potential impact is not significant.	Material volumes of wholesale funds contain embedded options. The potential impact is significant.
The bank is not vulnerable to funding difficulties should a material adverse change occur in market perception.	The bank is not excessively vulnerable to funding difficulties should a material adverse change occur in market perception.	The bank's liquidity profile makes it vulnerable to funding difficulties should a material adverse change occur.
Support provided by the parent company is strong.	Parent company provides adequate support.	Little or unknown support provided by the parent company.
Earnings and capital exposure from the liquidity risk profile is negligible.	Earnings or capital exposure from the liquidity risk profile is manageable.	Potential exposure to loss of earnings or capital due to high liability costs or unplanned asset reduction may be substantial.

Quality of liquidity risk management

Examiners should use the following indicators, as appropriate, when assessing the quality of liquidity risk management.

Strong	Satisfactory	Weak
Board-approved policies effectively communicate guidelines for liquidity risk management and designate responsibility.	Board-approved policies adequately communicate guidance for liquidity risk management and assign responsibility. Minor weaknesses may be present.	Board-approved policies are inadequate or incomplete. Policy is deficient in one or more material respects.
The liquidity risk management process is effective in identifying, measuring, monitoring, and controlling liquidity risk. Reflects a sound culture that has proven effective over time.	The liquidity risk management process is generally effective in identifying, measuring, monitoring, and controlling liquidity. There may be minor weaknesses given the complexity of the risks undertaken, but these are easily corrected.	The liquidity risk management process is ineffective in identifying, measuring, monitoring, and controlling liquidity risk. This may be true in one or more material respects, given the complexity of the risks undertaken.
Management fully understands all aspects of liquidity risk. Management anticipates and responds well to changing market conditions.	Management reasonably understands the key aspects of liquidity risk. Management adequately responds to changes in market conditions.	Management does not fully understand, or chooses to ignore, key aspects of liquidity risk. Management does not anticipate or take timely or appropriate actions in response to changes in market conditions.
The contingency funding plan is well-developed, effective and useful. The plan incorporates reasonable assumptions, scenarios, and crisis management planning, and is tailored to the needs of the institution.	The contingency funding plan is adequate. The plan is current, reasonably addresses most relevant issues, and contains an adequate level of detail including multiple scenario analysis. The plan may require minor refinement.	The contingency funding plan is inadequate or nonexistent. Plan may exist, but is not tailored to the institution, is not realistic, or is not properly implemented. The plan may not consider cost-effectiveness or availability of funds in a non-investment grade or CAMELS "3" environment.
Management information systems focus on significant issues and produce timely, accurate, complete, and meaningful information to enable effective management of liquidity.	Management information systems adequately capture concentrations and rollover risk, and are timely, accurate, and complete. Recommendations are minor and do not impact effectiveness.	Management information systems are deficient. Material information may be lacking or inaccurate, and reports are not meaningful.
Internal audit coverage is comprehensive and effective. The scope and frequency are reasonable.	Internal audit is satisfactory. Any weaknesses are minor and do not impair effectiveness or reliance on audit findings.	Internal audit coverage is nonexistent or ineffective due to one or more material deficiencies.

Price Risk

Price risk is the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. This risk arises from market-making, dealing, and position-taking in interest rate, foreign exchange, equity, and commodities markets.

Summary Conclusions:

The quantity of price risk is:

☐ Low	☐ Moderate	☐ High

The quality of price risk management is:

☐ Strong	☐ Satisfactory	☐ Weak

Examiners should consider both the quantity of price risk and the quality of price risk management to derive the following conclusions:

Aggregate price risk is:

☐ Low	☐ Moderate	☐ High

The direction is expected to be:

☐ Decreasing	☐ Stable	☐ Increasing

Quantity of price risk indicators

Examiners should use the following indicators, as appropriate, when assessing the quantity of price risk. It is not necessary to exhibit every characteristic in a column, or a majority of the characteristics, to be accorded the rating at the column's head.

Low	Moderate	High
Exposures are primarily confined to those arising from customer transactions, and involve liquid and readily manageable products, markets, and levels of activity. Bank does trades back-to-back for customers, taking no or negligible risk positions. No proprietary trading exists. Trading personnel merely execute customer orders. Earnings and capital have no vulnerability to volatility from revaluation requirements.	Trading positions exist only to position securities for sale to customers. No proprietary trading. Open positions are small and involve liquid instruments that allow for easy hedging. Limited trading in option-type products. Earnings and capital have limited vulnerability to volatility from revaluation requirements.	Trading activity includes proprietary transactions, with positions unrelated to customer activity. Exposures reflect open or unhedged positions, including illiquid instruments, options and/or longer maturities, which subject earnings and capital to significant volatility from revaluation requirements.
Policy limits reflect no appetite for price risk. Customer sales activities pose no or negligible threat to earnings and capital.	Policy limits reflect limited appetite for price risk.	Policy limits permit risk-taking, with the bank willing to risk losses that can impact quarterly earnings and/or capital.
Daily trading losses do not occur, because bank takes no or negligible risk.	Daily trading losses occur infrequently, and are small. Quarterly trading losses do not occur because of limited risk appetite and emphasis on customer revenues.	Daily trading losses occur periodically because the bank either lacks customer transaction revenue support, or takes positions that can create losses that eclipse customer revenues. Quarterly trading profits, and losses, can be large relative to budget and may occasionally result in a negative public perception.
Bank has a sales-driven culture, with sales personnel exercising greater authority than traders do. Compensation programs reward sales volumes.	Compensation programs reflect sales orientation, but do provide limited incentives for trading profits.	Trader-dominated operation, where compensation programs reward traders for generating trading profits.

Quality of price risk management

Examiners should use the following indicators, as appropriate, when assessing the quality of price risk management.

Strong	Satisfactory	Weak
Policies reflect board's risk appetite, and provide clear authorities, conservative limits, and assigned responsibilities. Policies permit risk-taking authority consistent with the expertise of bank personnel.	Policies provide generally clear authorities, reasonable limits, and assignment of responsibilities. Risk-taking authority is generally consistent with expertise of bank personnel.	Policies reflect management preferences for risk tolerance, as opposed to the board. Policies do not clearly assign responsibilities. Risk-taking authority does not reflect the expertise of trading personnel.
Management reports are prepared independently of the trading desk and provide a comprehensive and accurate summary of trading activities. Reports are timely, assess compliance with policy limits, and measure loss potential in both normal (e.g., VaR) and stressed markets. Management at all levels understands and monitors price risk.	Management reports are prepared independently of the trading desk, and provide a general summary of trading activities. Reports are timely, but may not fully assess loss potential. Trading unit management reviews risk reports, but management at higher levels may lack the understanding to review it on a frequent basis and in depth.	Management reports are not independent of the trading desk, do not provide risk-focused information, and may not be prepared regularly. Higher level managers do not understand price risk and do not review risk management reports.
Trading and sales personnel have broad experience in the products traded, are technically competent, and are comfortable with the bank's culture. Risk management personnel have an in-depth understanding of risk and risk management principles. Policy exceptions are rare, and formal procedures exist to report how/why they occurred, and how they were resolved.	Trading and sales personnel are generally experienced and technically competent. Risk management personnel, if the bank has such a unit, have a basic understanding of risk and risk management principles. Policy exceptions occur occasionally, but the bank may lack a formal process to report them and track resolution.	Trading and sales personnel may not have broad experience in the products they trade. A risk management unit does not exist, or is not independent and staffed by personnel familiar with risk management principles. Policy exceptions regularly occur and may not be reported or tracked for resolution.
New products are subject to a formal review program, with all relevant bank units participating in risk assessment and control procedures. Trading and sales authorizations for new products begin small, so that the bank can gain experience, and management tracks new product performance closely.	New products are subject to a formal review program, but relevant bank units may, or may not, assess their ability to properly control the activity. Trading and sales authorizations generally begin small. Management may, or may not, focus on new product performance.	Bank lacks a new product review program, or has one that assesses risk in a cursory way. Trading and sales authorizations are independent of risk and/or the expertise of the traders. Management does not specifically focus on new product performance.
Incompatible duties are properly segregated. Risk monitoring, valuation, and control functions are independent from the business unit.	Incompatible duties are generally segregated. Risk monitoring and control functions may not exist, or lack complete independence from the business unit.	Incompatible duties are often not segregated. Risk control functions do not exist, or are not independent from the business unit. Trading positions are frequently valued on trader prices, with limited independent verification.

Foreign Currency Translation Risk

Foreign currency translation risk is the current and prospective risk to earnings or capital arising from the conversion of a bank's financial statements from one currency into another. This risk refers to the variability in accounting values for a bank's equity accounts that result from variations in the exchange rates used in translating carrying values and income streams in foreign currencies to U.S. dollars. Market-making and position-taking in foreign currencies should be captured under price risk.

Summary Conclusions:

The quantity of foreign currency translation risk is:

☐ Low	☐ Moderate	☐ High

The quality of foreign currency translation risk management is:

☐ Strong	☐ Satisfactory	☐ Weak

Examiners should consider both the quantity of foreign currency translation risk and the quality of foreign currency translation risk management to derive the following conclusions:

Aggregate foreign currency translation risk is:

☐ Low	☐ Moderate	☐ High

The direction is expected to be:

☐ Decreasing	☐ Stable	☐ Increasing

Quantity of foreign currency translation risk indicators

Examiners should use the following indicators, as appropriate, when assessing the quantity of foreign currency translation risk.

Low	Moderate	High
The bank has non-dollar-denominated positions that are completely hedged. Assets denominated in foreign currencies equal liabilities denominated in foreign currencies. Earnings and capital are not vulnerable to changes in foreign currency exchange rates.	Bank may have a small volume of unhedged, non-dollar denominated positions, but it can readily hedge at a reasonable cost. Limited vulnerability to changes in foreign currency exchange rates.	Exposure reflects a large volume of unhedged, non-dollar denominated positions, or a smaller volume of unhedged positions in illiquid currencies for which hedging can be expensive. Changes in foreign currency exchange rates can adversely impact earnings and capital.

Quality of foreign currency translation risk management

Examiners should use the following indicators, as appropriate, when assessing the quality of foreign currency translation risk management.

Strong	Satisfactory	Weak
Policies clearly and reasonably limit the volume of translation risk and assigned responsibilities.	Policies address translation risk in a general way, but may not provide specific management guidelines.	The bank does not have a policy addressing translation risk or policy limits are not reasonable given management expertise, the bank's capital position, and /or volume of assets and liabilities denominated in foreign currencies. Responsibilities are not clearly assigned.
Management effectively understands, can measure, and has technical expertise in managing translation risk.	Management has a reasonable understanding of translation risk as well as of how to measure and hedge it.	Management does not demonstrate an understanding of translation risk, and lacks the ability to manage it effectively.
Management and the board regularly review currency translation risk exposures and direct changes, if necessary, given market conditions and the size of the exposure.	Management and the board regularly review translation risk exposures, but generally don't direct changes even in unsettled markets.	Neither management nor the board is aware of the magnitude of translation risk or does not review reports outlining translation risks.

Transaction Risk

Transaction risk is the current and prospective risk to earnings and capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information. Risk is inherent in efforts to gain strategic advantage and in the failure to keep pace with changes in the financial services marketplace. Transaction risk is evident in each product and service offered. Transaction risk encompasses product development and delivery, transaction processing, systems development, computing systems, complexity of products and services, and the internal control environment.

Summary Conclusions:

The quantity of transaction risk is:

☐ Low	☐ Moderate	☐ High

The quality of transaction risk management is:

☐ Strong	☐ Satisfactory	☐ Weak

Examiners should consider both the quantity of transaction risk and the quality of transaction risk management to derive the following conclusions:

Aggregate transaction risk is:

☐ Low	☐ Moderate	☐ High

The direction is expected to be:

☐ Decreasing	☐ Stable	☐ Increasing

Quantity of transaction risk indicators

Examiners should use the following indicators when assessing the quantity of transaction risk.

Low	Moderate	High
Exposure to risk from fraud, errors, or processing disruptions is minimal given the volume of transactions, complexity of products and services, and state of systems development. Risk to earnings and capital is negligible.	Exposure to risk from fraud, errors, or processing disruptions is modest given the volume of transactions, complexity of products and services, and state of systems development. Deficiencies that have potential impact on earnings or capital can be addressed in the normal course of business.	Exposure to risk from fraud, errors, or processing disruptions is significant given the volume of transactions, complexity of products and services, and state of systems development. Deficiencies exist which represent significant risk to earnings and capital.
Risks, including transaction processing failures, from planned conversions, merger integration, or new products and services are minimal.	Risks, including transaction processing failures, from planned conversions, merger integration, or new products and services are manageable.	Risks, including transaction processing failures, from planned conversions, merger integration, or new products and services are substantial.

Quality of transaction risk management

Examiners should use the following indicators when assessing the quality of transaction risk management.

Strong	Satisfactory	Weak
Management anticipates and responds effectively to risks associated with operational changes, systems development, and emerging technologies.	Management adequately responds to risks associated with operational changes, systems development, and emerging technologies.	Management does not take timely and appropriate actions to respond to operational changes, systems development, or emerging technologies.
Management has implemented sound operating processes, information systems, internal control, and audit coverage.	Operating processes, information systems, internal control, and audit coverage are satisfactory although deficiencies exist.	Significant weaknesses exist in operating processes, information systems, internal control, or audit coverage related to transaction processing.
Management identifies weaknesses in transaction processing and takes timely and appropriate action.	Management recognizes weaknesses in transaction processing and generally takes appropriate action.	Management does not recognize weaknesses in transaction processing or make the necessary corrections.
Management information provides appropriate monitoring of transaction volumes, error reporting, fraud, suspicious activity, security violations, etc. MIS is accurate, timely, complete and reliable.	Management information systems for transaction processing are adequate, although moderate weaknesses may exist.	Management information systems for transaction processing exhibit significant weaknesses or may not exist.
Management comprehensively provides for continuity and reliability of services, including services furnished by outside providers.	Management adequately provides for continuity and reliability of significant services furnished by outside providers.	Management has not provided for continuity and reliability of services furnished by outside providers.
Appropriate processes and controls exist to manage and protect data.	Processes and controls to manage and protect data may have modest deficiencies.	Processes and controls to manage and protect data are seriously deficient or nonexistent.
Risks from new products and services, planned strategic initiatives, or acquisitions are well controlled and understood.	Management has implemented controls that mitigate risks from new products and services, planned strategic initiatives, or acquisitions.	Inadequate planning or due diligence expose the bank to significant risk from activities such as the introduction of new products and services, strategic initiatives, or acquisitions.
Management fully understands technology risks with available expertise to evaluate technology-related issues.	Management reasonably understands technology risks and has expertise available to evaluate technology-related issues.	Management does not understand, or has chosen to ignore, key aspects of transaction risk.

Compliance Risk

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain bank products or activities of the bank's clients may be ambiguous or untested. This risk exposes the institution to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential, and an inability to enforce contracts.

Note: This section's additional indicators cover specific areas of consumer compliance laws and regulations. Examiners use these as guidance as needed when developing the consumer compliance portion of a bank's supervisory strategy and when completing supervisory activities.

Summary Conclusions:

The quantity of compliance risk is:

☐ Low	☐ Moderate	☐ High

The quality of compliance risk management is:

☐ Strong	☐ Satisfactory	☐ Weak

Examiners should consider both the quantity of compliance risk and the quality of compliance risk management to derive the following conclusions:

Aggregate compliance risk is:

☐ Low	☐ Moderate	☐ High

The direction is expected to be:

☐ Decreasing	☐ Stable	☐ Increasing

Quantity of compliance risk indicators

Examiners should use the following indicators when assessing the quantity of compliance risk.

Low	Moderate	High
Violations or noncompliance issues are insignificant, as measured by their number or seriousness.	The frequency or severity of violations or noncompliance is reasonable.	Violations or noncompliance expose the company to significant impairment of reputation, value, earnings, or business opportunity.
The institution has a good record of compliance. The bank has a strong control structure that has proven effective. Compliance management systems are sound and minimize the likelihood of excessive or serious future violations or noncompliance.	The institution has a satisfactory record of compliance. Compliance management systems are adequate to avoid significant or frequent violations or noncompliance.	The institution has an unsatisfactory record of compliance. Compliance management systems are deficient, reflecting an inadequate commitment to risk management.

Quality of compliance risk management indicators

Examiners should use the following indicators when assessing the quality of compliance risk management.

Strong	Satisfactory	Weak
Management fully understands all aspects of compliance risk and exhibits a clear commitment to compliance. The commitment is communicated throughout the institution.	Management reasonably understands the key aspects of compliance risk. Its commitment to compliance is reasonable and satisfactorily communicated.	Management does not understand, or has chosen to ignore, key aspects of compliance risk. The importance of compliance is not emphasized or communicated throughout the organization.
Authority and accountability for compliance are clearly defined and enforced.	Authority and accountability are defined, although some refinements may be needed.	Management has not established or enforced accountability for compliance performance.
Management anticipates and responds well to changes of a market, technological, or regulatory nature.	Management adequately responds to changes of a market, technological, or regulatory nature.	Management does not anticipate or take timely or appropriate actions in response to changes of a market, technological, or regulatory nature.
Compliance considerations are incorporated into product and system development and modification processes, including changes made by outside service providers or vendors.	While compliance may not be formally considered when developing products and systems, issues are typically addressed before they are fully implemented.	Compliance considerations are not incorporated into product and system development.
When deficiencies are identified, management promptly implements meaningful corrective action.	Problems can be corrected in the normal course of business without a significant investment of money or management attention. Management is responsive when deficiencies are identified.	Errors are often not detected internally, corrective action is often ineffective, or management is unresponsive.
Appropriate controls and systems are implemented to identify compliance problems and assess performance.	No shortcomings of significance are evident in controls or systems. The probability of serious future violations or noncompliance is within acceptable tolerance.	The likelihood of continued violations or noncompliance is high because a corrective action program does not exist, or extended time is needed to implement such a program.
Training programs are effective, and the necessary resources have been provided to ensure compliance.	Management provides adequate resources and training given the complexity of products and operations.	Management has not provided adequate resources or training.
Compliance management process and information systems are sound, and the bank has a strong control culture that has proven effective.	Compliance management process and information systems are adequate to avoid significant or frequent violations or noncompliance.	Compliance management processes and information systems are deficient.
Bank privacy policies fully consider legal and litigation concerns.	Bank privacy policies adequately consider legal and litigation concerns.	Bank privacy policies are nonexistent or do not consider legal and litigation concerns.

Quantity of BSA/AML/OFAC risk indicators

Examiners should use the following indicators when assessing the quantity of BSA/AML/OFAC risk.

Low	Moderate	High
Stable, known customer base.	Customer base increasing due to branching.	A large and growing deposit base in a wide and diverse geographic area.
No Electronic banking or the web site is informational/ non-transactional.	The bank is beginning e-banking and offers limited products and services.	The bank offers a wide array of e-banking products and services. (I.e. account transfers, e-bill payment or accounts opened via the internet.)
Based on information received from the FinCEN database, there are few or no large currency transactions or structured transactions.	Based on information received from the FinCEN database, there is a moderate volume of large currency transactions or structured transactions.	Based on information received from the FinCEN database, there is a large volume of large currency transactions or structured transactions.
Few high-risk customer and businesses.	A moderate number of high-risk customers and businesses. (For example, check cashiers, convenience stores, wire remitters, casas de cambio, import/export companies, offshore corporations, non-resident aliens and foreign customers.)	A high volume of high-risk customers and businesses. (For example, check cashiers, convenience stores, wire remitters, casas de cambio, import/export companies, offshore corporations, non-resident aliens and foreign customers.)
No foreign correspondent accounts. The bank does not maintain "collection," "payable through," or "pouch" accounts.	The bank has a few foreign correspondent accounts, but no "payable through," "collection," '"pouch," or special use accounts (SUAs).	The bank maintains a large number of foreign correspondent accounts and offers "payable through,," "collection," "pouch," and special use accounts (SUAs).
The bank does not have a Trust Department or provide private banking services.	Bank offers limited private banking services and has a Trust Departments that offers accounts that are predominantly bank-controlled. Strategic plan may be to increase trust business.	Significant private banking and Trust activities. Private banking and/or Trust Department is growing. Products offered include investment management services and trust accounts are predominantly customer controlled vs. bank-controlled accounts.
Few international accounts or very low volume of cash activity in the accounts	Some international accounts with unexplained cash activity.	Large number of internal accounts with unexplained cash activity.
Limited number of wire transfers for customers, non-customers, and no foreign wire transfers.	A higher number of wire transfers. A few international wire transfers from personal or business accounts.	A high number of non-customer wire transactions and PUPID activity. Frequent wire from personal or business accounts to/from financial secrecy havens or jurisdictions that are uncooperative in the fight against money laundering.

Quantity of BSA/AML/OFAC risk – continued

Low	Moderate	High
The bank is not located in a high intensity drug trafficking area (HIDTA) [1] or high intensity money laundering financial crimes area (HIFCA). No fund transfers or account relationships involve HIDTAs or HIFCAs.	The bank's location is in a HIDTA. Has some fund transfers or account relationships that involve HIDTAs or HIFCAs.	Bank is located in a HIDTA and a HIFCA. A large number of fund transfers or account relationships involve HIDTAs or HIFCAs.
No formal communication from OFAC.	Formal communications from OFAC includes only warning letters. No OFAC violations noted.	The bank received an OFAC reprimand or penalty notification letter.
Low turnover of key personnel or frontline personnel (i.e., Customer Service Representatives, Tellers or other branch personnel).	Low turnover of key personnel, but frontline personnel in branches may have changed.	High amount of turnover especially in key personnel positions.

[1] HIDTAs can be determined by finding a location at this website http://www.whitehousedrugpolicy.gov/index.html

Quality of BSA/AML/OFAC risk management

Examiners should use the following indicators, as appropriate, when assessing the quality of BSA/AML/OFAC risk management.

Strong	Satisfactory	Weak
Management fully understands the risk and exhibits a strong commitment to compliance.	Management reasonably understands the key aspects of compliance and its commitment is generally clear and satisfactorily communicated.	Management does not understand or has chosen to ignore, key aspects of compliance risk. The importance of compliance is not emphasized or communicated throughout the organization.
Compliance considerations are incorporated into all products and areas of the organization.	Compliance considerations were overlooked or weak in one or two areas but management promised corrective action when it was identified.	Compliance considerations are not incorporated into numerous areas of the organization
When deficiencies are identified, management promptly implements meaningful corrective action.	Problems can be corrected in the normal course of business without significant investment of money or management attention. Management is responsive when deficiencies are identified.	Errors and weaknesses are not self-identified. Management may only respond when violations are cited.
Authority and accountability for compliance are clearly defined and enforced, including the designation of a qualified BSA officer.	Authority and accountability are defined, but some refinements are needed. A qualified BSA officer has been designated.	Authority and accountability for compliance has not been clearly established. No or unqualified BSA officer may have been appointed. Role of the BSA officer is unclear.
Independent testing is in place and effective.	Overall, independent testing is in place and effective. However, some weaknesses are noted.	Independent testing is not in place and or is ineffective.
The board has approved a BSA compliance program that includes policies, procedures, controls and information systems that are adequate.	The board has approved a BSA compliance program that addresses most policies, procedures, controls and information systems but some weaknesses are noted.	The board may not have approved a BSA compliance program. Policies, procedures, controls and information systems are significantly deficient. For example, there are substantial failures to file currency transaction Reports and/or suspicious activity reports.
Training is appropriate, effective, covers applicable personnel, and necessary resources have been provided to ensure compliance.	Training is conducted and management provides adequate resources given the risk profile of the organization; however, some areas are not covered within the training program.	Training is not consistent and does not cover important regulatory and risk areas.

Quality of BSA/AML/OFAC risk management – continued

Strong	Satisfactory	Weak
Effective customer identification processes and account opening procedures are in place.	Customer identification process and account-opening procedures are generally in place, but not well applied to all high-risk areas.	Customer identification process and account opening procedures are absent or ineffective.
Management has identified and developed controls that are applied appropriately to high-risk areas, products, services and customers of the bank.	Management is aware of high-risk areas, products, services and customers, but controls are not always appropriately applied to manage this risk.	Management is not fully aware of high-risk areas of the bank. Lack of appropriate policies, procedures, and controls have resulted in instances of unreported suspicious activity, unreported large currency transactions, structured transactions and/or substantive violations of law.
Compliance systems and controls quickly adapt to changes in various lists (for example OFAC, FinCEN, and Other Government Provided List).	Compliance systems and controls are generally adequate and adapt to changes in various government lists (for example OFAC, FinCEN, and Other Government Provided List).	Compliance systems and controls are inadequate to comply with and adapt to changes in various government lists (for example, OFAC, FinCEN, and Other Government Provided List).
Compliance systems and controls effectively identify and appropriately report suspicious activity. Systems are commensurate with risk.	Compliance systems and controls generally identify suspicious activity. However, monitoring systems are not comprehensive or have some weaknesses that allow under-reporting.	Compliance systems and controls are ineffective in identifying and reporting suspicious activity.
Low volume of correspondence from IRS indicates that CTRs are accurate.	Volume of correspondence from the IRS indicates some errors in CTR reporting.	Volume of correspondence from IRS indicates a substantive volume of CTR reporting errors.
Appropriate compliance controls and systems are implemented to identify compliance problems and assess performance.	No shortcomings of significance are evident in compliance controls or systems. The probability of serious future violation or noncompliance is within acceptable tolerance.	The likelihood of continued compliance violations or noncompliance is high because a corrective action program does not exist, or extended time is needed to implement such a program.

Quantity of fair lending (F/L) risk indicators

Examiners should use the following indicators, as appropriate, when assessing the quantity of fair lending risk.

Low	Moderate	High
Significant and explainable volume of consumer lending.	Lower volume of consumer lending, but explainable.	Low and unexplainable volume of consumer lending. (Bank could be discouraging to applicants).
Generic, non-complex products offered.	Limited number of complex products offered. Mix of products change occasionally.	Several complex products offered (e.g., sub-prime high cost mortgages, etc.). Prime and subprime products offered appear similar.
Low number of policy exceptions/overrides.	Modest number of policy exceptions/overrides. May exceed guidelines.	High number of policy exceptions/overrides.
Lending policies allow little or no subjective factors (loan officer judgment, discretionary pricing, fees, etc.)	Lending policies allow some subjective factors	Lending policy allows a high level of subjective decision-making factors.
Little or no disparities among approval/denial rates by prohibited basis groups.	Some disparities among approval/denial rates by prohibited basis groups.	Substantive disparities among approval/denial rates by prohibited basis groups.
Low proportion of withdrawn/incomplete applications for prohibited basis groups.	Moderate proportion of withdrawn/incomplete applications for prohibited basis groups.	Higher portion of withdrawn/incomplete applications for prohibited basis groups.
No conspicuous gaps in lending patterns identified.	Conspicuous gaps in lending patterns identified are explainable.	Conspicuous gaps in lending patterns identified are not explainable.
Bank originates its own consumer loans. Bank has no broker relationships (centralized underwriting).	Low volume of consumer loans is originated by local brokers.	High volume of consumer loans is originated by multiple statewide or nationwide brokers (decentralized underwriting).
No marketing practices or products that are targeted to any specific group or location.	Limited marketing practices or products that are targeted to specific groups. Activity is commensurate with strategic focus.	Marketing practices or products are targeted to specific groups or locations, e.g., advertising sub-prime or higher cost consumer loans in a language other than English.
No special purpose credit programs, i.e., a program primarily for an economically disadvantaged group.	One special purpose credit program.	Several special purpose credit programs.
No F/L complaints or complaints to DOJ or HUD regarding discrimination or discouraged applications.	Limited number of F/L related complaints.	Numerous F/L related complaints.
No F/L lawsuits or claims regarding discrimination or discouraged applicants.	Community groups have raised F/L issues. Some potential lawsuits, e.g., allegations of predatory lending.	Actual F/L lawsuits or claims. Any investigations of fair lending complaints by DOJ or HUD.

Quality of fair lending risk management

Examiners should use the following indicators, as appropriate, when assessing the quality of fair lending risk management.

Strong	Satisfactory	Weak
Bank conducts an effective F/L Risk analysis. Results are discussed with the BOD. (Determined via discussion with management. It is not necessary for bank to share results.)	Bank conducts a F/L Risk assessment but system is flawed. (Determined via discussion with management. It is not necessary for bank to share results.)	Little or no monitoring of F/L compliance.
Centralized decision making with ongoing monitoring for consistency. Bank adheres to well-defined underwriting standards and override procedures.	Bank generally adheres to underwriting standards and override procedures.	Decentralized decision making without monitoring of: • Discretionary pricing • Overrides • Policy exceptions
Bank has an effective second review process in place.	Bank has implemented an informal second review process (e.g., inconsistent consideration of denied applications, exceptions, and/or overrides.	No second review process.
F/L considerations are incorporated into all areas of the bank, i.e., roll out of new products, advertising, changes in forms, disclosures, etc.	F/L considerations sometimes overlooked and not incorporated into all areas of the bank. Management effects corrective action when identified.	F/L considerations are not incorporated in numerous areas of the bank. Management does not effect corrective action.
Policies and procedures are adequate.	Policies and procedures are generally adequate but certain weaknesses were noted.	Policies and procedures are significantly flawed and do not provide sufficient guidance as to why business reasons or other factors are not discriminatory.
When deficiencies are identified, management promptly implements meaningful corrective action.	Management is responsive when deficiencies are identified in the normal course of business or second review.	Errors and deficiencies are not self-identified. Management may only respond when violations are cited.
Training to ensure consistent treatment is appropriate and effective. Necessary resources have been provided to ensure compliance. Experienced, well-trained and knowledgeable staff.	Training is conducted, but is conducted infrequently or is not timely. Management might not provide adequate resources and employee turnover may be high.	Training is sporadic and ineffective, e.g., as evidenced by inconsistent application of underwriting standards, high volume of withdrawn/incomplete applications may indicate bank is discouraging applicants.
Bank is responsive and resolves complaints promptly when received.	In general, complaints are promptly and adequately addressed.	Management does not monitor or adequately and promptly address complaints.
Appropriate fair lending compliance controls and systems (e.g., quality control functions, compliance audits, and self-assessments) are implemented to identify compliance problems and assess performance.	No shortcomings of significance are evident in fair lending compliance controls or systems (e.g., quality control functions, compliance reviews, compliance audits, and self-assessments). The probability of serious future violation or noncompliance is within acceptable tolerance.	Shortcomings of significance are evident in fair lending compliance controls or systems (e.g., quality control functions, compliance reviews, compliance audits, and self-assessments). The probability of serious future violation or noncompliance is NOT within acceptable tolerance.

Quantity of consumer lending regulations (FDPA/RESPA/TILA/HPA/HMDA) risk indicators

Examiners should use the following indicators, as appropriate, when assessing the quantity of consumer lending regulations risk.

Low	Moderate	High
Non-complex loan products offered, stable types of products. (i.e., Fixed-rate long-term mortgages, simple consumer loans).	Limited number of complex loan products. Products change occasionally.	Several complex loan products offered (i.e., ARMS, HELOC, construction loans, etc.). Products change frequently.
Consistent, high volume of loan originations with no recently identified violations of law/regulation. Indicates bank is accustomed to dealing with technical regulations.	Consistent high volume of loan originations with occasional technical violations noted.	Low level, infrequent loan originations and or frequent violations noted.
Experienced, knowledgeable staff in key lending control positions. May be indicated by low staff turnover or frequency of training.	Experienced, knowledgeable staff in moderately critical lending control positions.	Inexperienced or untrained staff in key or high volume critical lending control positions. High turnover or infrequent training may be an indicator.
Stable software and processes with low errors in technical requirements (disclosures, notices, APRs, changes in indices, etc.).	Implementation of new software, or software conversions with some errors in technical requirements.	System conversions or software changes due to vendor changes, or merger activity. Problems indicated by high level of errors in technical requirements.
Electronic banking is not offered or is limited to account inquiries.	Electronic banking is limited to non-transactional functions, and is informational only. Information includes triggering terms. No on-line loan applications permitted.	Loan application and transactions accepted via the Internet increasing the difficulty of delivering disclosures and makes bank more susceptible to fraud.
Marketing activities are limited to local area, stable environment, centralized.	Marketing activities are limited standard products, decentralized channels (branches), and wider geographical area.	Active marketing of new products offered through multiple channels (Internet, direct mail, solicitations, etc.).
Interest rate environment is stable.	Interest rate environment is changing but loan volume is manageable	Interest rates environment is unstable causing unmanageable loan volume.
Few competitors.	Multiple competitors. May result in bank offering some loan products they are not experienced in handling	High level of competition causing increased loan volume. Particularly in complex loan products they are not experienced in handling.
Few or no consumer complaints are received. There is no obvious pattern as to regulation type when complaints are reviewed.	Some consumer complaints are received. There is no obvious pattern as to regulation type.	Several consumer complaints are received and may represent a pattern.

Quantity of consumer lending regulations (FDPA/RESPA/TILA/HPA/HMDA) risk indicators – continued

Low	Moderate	High
No special flood hazard areas in local lending area. (FDPA)	Local lending area has few special flood hazard areas.	Local lending area has numerous special flood hazard areas.
No broker relationship or limited broker relationships with low amount of unearned fees either paid or received. (RESPA)	Moderate use of broker and moderate amount of unearned fees either paid or received.	Broker relationship coupled with high amount of unearned fee income either paid or received.
Bank does not offer products or services that require expanded, detailed regulatory compliance such as: • Credit cards (TILA) • Home equity loans/lines (TILA) • Consumer leases (Leasing) • Escrow (RESPA, HPA) • Private mortgage insurance (TILA, HPA) • Required service providers (RESPA) • Controlled business arrangements	Bank may be offering some products or services that require expanded, detailed regulatory compliance. (See list under Low)	Bank offers numerous products or services that require expanded, detailed regulatory compliance. (See list under Low)
Low number of consumer complaints received. There is no pattern as to type of complaint. Few or no substantive issues.	Moderate number of consumer complaints are received without a pattern as to compliance type. Moderate number of substantive issues.	Several consumer complaints are received and may represent a pattern. Significant number of substantive issues. CAG may have warned supervisory office.
Bank does not provide disclosures electronically.	Bank provides both electronic and paper disclosures. Staff is knowledgeable of E-Sign Act and there is effective consumer opt-in as required by the act.	Bank provides disclosures electronically only. Staff has some knowledge of the E-Sign Act. Effective consumer opt-in, as required by the act, is inconsistent.

Quality of consumer lending regulations (FDPA/RESPA/TILA/HPA/HMDA) risk management

Examiners should use the following indicators, as appropriate, when assessing the quality of consumer lending regulations risk management.

Strong	Satisfactory	Weak
Management fully understands all aspects of lending compliance risk and exhibits a clear commitment to compliance. The commitment is communicated throughout affected areas of the institution.	Management reasonably understands the key aspects of lending compliance risk. Its commitment to lending compliance is reasonable and satisfactorily communicated throughout affected areas of the institution.	Management does not understand, or has chosen to ignore, key aspects of lending compliance risk. The importance of lending compliance is not emphasized or communicated throughout affected areas of the institution.
Authority and accountability for lending compliance are clearly defined and enforced.	Authority and accountability for lending compliance are defined, although some refinements may be needed.	Management has not established or enforced accountability for lending compliance performance.
Management anticipates and responds well to changes of a market, technological or regulatory nature that affect lending regulations compliance.	Management adequately responds to changes of a market, technological or regulatory nature that affect lending regulations compliance.	Management does not anticipate or take timely or appropriate actions in response to changes of a market, technological or regulatory nature that affect lending regulations compliance.
Lending compliance considerations are incorporated into products and system development and modification processes, including changes made by outside service providers or vendors or affiliates.	While lending compliance may not be formally considered when developing products and systems, issues are typically addressed before they are fully implemented.	Lending compliance considerations are not incorporated into product and system developments.
When lending compliance deficiencies are identified, management promptly implements meaningful corrective action.	Lending compliance problems can be corrected in the normal course of business without a significant investment of money or management attention. Management is responsive when lending deficiencies are identified.	Lending compliance errors are often not detected internally, corrective action is often ineffective, or management is unresponsive.
Appropriate lending compliance controls and systems (e.g., quality control functions, compliance audits, and self-assessments) are implemented to identify compliance problems and assess performance.	No shortcomings of significance are evident in lending compliance controls or systems (e.g., quality control functions, compliance reviews, compliance audits, and self-assessments). The probability of serious future violations or noncompliance is within acceptable tolerance.	The likelihood of continued lending compliance violations or noncompliance is high because a corrective action program does not exist, or extended time is needed to implement such a program.
Lending compliance training programs are effective, and the necessary resources have been provided to ensure compliance.	Management provides adequate resources and training for compliance with lending regulations given the complexity of products and operations.	Management has not provided adequate resources or training for compliance with lending regulations.

Quality of consumer lending regulations (FDPA/RESPA/TILA/HPA/HMDA) risk management – continued

Strong	Satisfactory	Weak
Compliance management process and information systems are sound and the bank has a strong control culture that has proven effective for lending compliance.	Compliance management process and information systems are adequate to avoid significant or frequent violations or noncompliance with lending regulations.	Compliance management processes and information systems are deficient in the lending regulations.
Effective control systems are in place to assure maintenance of flood insurance throughout the loan term. This includes mechanism to force place flood insurance if necessary. (FDPA)	Control systems are in place to detect the expiration of insurance but there is not a mechanism to provide for the timely force placement of insurance (Gaps in insurance can occur.)	Bank does not have effective system to maintain flood insurance.
Control systems are effective to collect and accurately report all HMDA and CRA loans.	Control systems do not capture all loans or there are errors but the internal control systems found data errors and corrected them.	Control systems are not capturing all loans. Bank's does not have a quality control system to detect errors.

Quantity of consumer deposit regulations (Reg. D, Reg. DD, Reg. CC, Reg. E) risk indicators

Examiners should use the following indicators, as appropriate, when assessing the quantity of consumer deposit regulations risk.

Low	Moderate	High
Staff is experienced and knowledgeable regarding regulatory requirements that apply to their function. Staff turnover is generally low.	Staff is generally experienced and knowledgeable regarding regulatory requirements that apply to their function. Some turnover is identified.	Staff is inexperienced or is not knowledgeable regarding regulatory requirements that apply to their function. Turnover may be high, or turnover of employees in key control areas is identified.
Non-complex products are offered. Product types are stable. (Reg. D, Reg. DD, Reg. CC, Reg. E)	Limited number of complex products are offered. Product types change occasionally. (Reg. D, Reg. DD, Reg. CC, Reg. E)	Several complex deposit products offered (i.e. Indexed-powered CD's, tiered rate, stepped-rate, etc). Product types change frequently. (Reg. D, Reg. DD, Reg. CC, Reg. E)
Electronic Banking is not offered or is limited to account inquiries. (Reg. D, Reg. DD)	Electronic Banking is limited to non-transactional functions, and is informational only (which may trigger Reg. DD advertising requirements). No account opening permitted. (Reg. D, Reg. DD)	Accounts can be opened via the Internet, transactions conducted (account-to-account transfers, electronic bill payment, etc.) (Reg. D, Reg. DD, Reg. CC, Reg. E)
Marketing activities are limited to local area, stable environment, centralized (Reg. DD).	Marketing activities are limited to standard products, decentralized channels (individual branches or Lines of Business) (Reg. DD)	Active marketing of new products offered through multiple channels (Internet, direct mail, etc.) (Reg. DD)
Interest rate environment is stable. (Reg. DD)	Interest rate environment is unstable but volume is manageable. (Reg. DD)	Interest rates are unstable. May result in rapid shift in demand for certain products (Reg. DD). May indicate a need for further disclosures to the consumer.
Few competitors. (Reg. DD)	Multiple competitors. May result in the bank developing more complex products. (Reg. DD)	High level of competition. May result in the bank offering premiums or bonuses for deposit products. (Reg. DD)
Tested and proven software and processes are in use. Few if any errors regarding technical requirements (disclosures, notices, APYs, etc) are noted. (Regs. DD, CC, D, E)	New software has been implemented, or software conversions have taken place. Some errors regarding technical requirements are noted. (Regs. DD, CC, D, E)	System conversions or software changes have been implemented due to vendor changes, or merger activity. Numerous errors regarding technical requirements are noted. (Regs. DD, CC, D, E)
Next day availability of deposits across the board. Few exception holds. (Reg. CC)	Case-by-case, new account and large deposit exceptions occur occasionally. Deposit holds are done infrequently. (Reg. CC)	Holds are placed frequently (Exceptions and new account holds (12CFR229.13), and case-by-case (12CFR229.16)). (Reg. CC)
Low number of consumer complaints received. There is no pattern as to type of complaint. Few or no substantive issues.	Moderate number of consumer complaints are received without a pattern as to compliance type. Moderate number of substantive issues.	Several consumer complaints are received and may represent a pattern. Significant number of substantive issues. CAG may have warned supervisory office.

Quantity of consumer deposit regulations (Reg. D, Reg. DD, Reg. CC, Reg. E) risk indicators – continued

Low	Moderate	High
Access devices are not offered or are limited to ATM cards. (Reg. E)	Access devices such as ATM and debit cards are offered. Multiple channels may be available. (Reg. E)	Bank's ATM network may be extensive. Access devices such as ATM and debit cards are offered. Multiple channels may be available. (Reg. E)
Bank does not offer MMDA or NOW accounts. (Reg. D)	MMDA and/or NOW accounts may be offered as permitted by regulation. (Reg. D)	MMDA and/or NOW accounts are offered. NOW accounts may not be limited to consumers only. (Reg. D)
Bank does not provide disclosures electronically.	Bank provides both electronic and paper disclosures. Staff is knowledgeable of E-Sign Act and there is effective consumer opt-in as required by the act.	Bank provides disclosures electronically only. Staff has some knowledge of the E-Sign Act. Effective consumer opt-in, as required by the act, is inconsistent.

Quality of consumer deposit regulations (Reg. D, Reg. DD, Reg. CC, Reg. E) risk management

Examiners should use the following indicators, as appropriate, when assessing the quality of consumer deposit regulations risk management.

Strong	Satisfactory	Weak
Management fully understands all aspects of deposit compliance risk and exhibits a clear commitment to compliance. The importance of deposit compliance is emphasized and communicated throughout the organization.	Management reasonably understands the key aspects of deposit compliance risk. Its commitment to deposit compliance is reasonable and satisfactorily communicated.	Management does not understand the key aspects of deposit compliance risk. Its commitment to deposit compliance is not reasonable or satisfactorily communicated.
Authority and accountability for deposit compliance is clearly defined and enforced.	Authority and accountability for deposit compliance is defined, although some refinements are needed.	Management has not established or enforced accountability for deposit compliance performance.
Management anticipates and responds well to changes of a market, technological or regulatory nature that affect deposit regulations compliance.	Management adequately responds to changes of a market, technological or regulatory nature that affect deposit regulations compliance.	Management does not anticipate or take timely or appropriate actions in response to changes of a market, technological or regulatory nature that affect deposit regulations compliance.
Deposit compliance considerations (APYs, periodic statements, deposit holds, MMDA withdrawals/transfers, etc.) are incorporated into products and system development and modification processes, including changes made by outside service providers or vendors. (Regs. DD, E, CC, D)	While deposit compliance may not be formally considered when developing products and systems, issues are typically addressed before they are fully implemented.	Deposit compliance considerations are not incorporated into product and system developments.
When deposit compliance deficiencies are identified, management promptly implements meaningful corrective action. These include responding to customer complaints and resolving EFT errors.	Deposit compliance problems can be corrected in the normal course of business without a significant investment of money or management attention. Management is responsive when deposit deficiencies are identified.	Deposit compliance errors are often not detected internally, corrective action is often ineffective, or management is unresponsive.
Appropriate deposit compliance controls and systems (e.g., quality control functions, compliance audits, self assessments) are implemented to identify compliance problems and assess performance.	No shortcomings of significance are evident in deposit compliance controls or systems (e.g., quality control functions, compliance reviews, compliance audits, and self-assessments). The probability of serious future violation or noncompliance is within acceptable tolerance.	The likelihood of continued deposit compliance violations or noncompliance is high because a corrective action program does not exist, or extended time is needed to implement such a program.

Quality of consumer deposit regulations (Reg. D, Reg. DD, Reg. CC, Reg. E) risk management – continued

Strong	Satisfactory	Weak
Deposit compliance training programs are effective, and the necessary resources have been provided to ensure compliance.	Management provides adequate resources and training given the complexity of products and operations for compliance with deposit regulations.	Management has not provided adequate resources or training for compliance with deposit regulations.
Compliance management processes and information systems are sound and the bank has a strong control culture that has proven effective for deposit compliance.	Compliance management processes and information systems are adequate to avoid significant or frequent violations or noncompliance with deposit regulations.	Compliance management processes and information systems are deficient in the deposit regulations.

Quantity of other consumer regulations (Privacy of Consumer Financial Information, Fair Credit Reporting Act, Right to Financial Privacy Act, Fair Debt Collection Practices Act, Children's On-Line Privacy Protection Act) risk indicators

Examiners should use the following indicators, as appropriate, when assessing the quantity of other consumer regulations risk.

Low	Moderate	High
The bank does not share customer information with affiliates and nonaffiliates outside of the regulatory exceptions contained in 12 CFR 40.13, .14, and .15 (Privacy)	The bank shares limited customer information with affiliates and nonaffiliates	The bank actively shares customer information with affiliates and nonaffiliates.
The bank does not disclose information to nonaffiliated third parties outside the statutory exceptions, and an opt-out election is therefore not necessary (Privacy)	The bank does disclose information to nonaffiliated third parties outside the statutory exceptions. Consumers are provided a reasonably clear and conspicuous opt-out notice and a generally reasonable means to do so. The bank has devised a generally effective means to record, maintain, and effectuate opt-out election by consumers.	The bank does disclose information to nonaffiliated third parties outside the statutory exceptions. Consumers are either not provided with an opt-out notice, or it is not clear and conspicuous. It is difficult for consumers to submit the notice. The bank either has not devised a means to record, maintain, and effectuate opt-out election by consumers, or it is not effective.
The bank has no relationships with nonaffiliated entities. (Privacy)	The bank has relationships with a limited number of nonaffiliated entities.	The bank has relationships with a large number of nonaffiliated entities.
The bank does not report credit information on its customers other than to a consumer-reporting agency. (Fair Credit Reporting Act)	The bank provides credit information on its customers to their holding companies or affiliates as permitted by the law.	The bank routinely provides credit information on its customers to other creditors or correspondents to market new products.
The bank has not received requests from government agencies for information related to customers' financial records. (Right to Financial Privacy Act)	The bank has received limited requests from government agencies for customers' financial records.	The bank has received a significant number of requests from government agencies for customers' financial records.
Bank does not currently operate a Web site or online service directed to children under age 13 or does not have actual knowledge that they are collecting or maintaining personal information from a child online. (COPPA)	Bank's web site may collect information from children under the age of 13, but it does not have a FTC-approved program.	Bank's Web site collects information from children under the age of 13. It is participating in an FTC-approved, self-regulatory program and independent review/audit has verified the bank's compliance with the program.
The bank does not regularly collect consumer debts for another person or institution, or use any name other than its own when collecting consumer debts and is therefore not a "debt collector." (Fair Debt Collection Practices Act)	The bank occasionally acts as a "debt collector."	The bank frequently acts as a "debt collector."

Quality of other consumer regulations (Privacy of Consumer Financial Information, Fair Credit Reporting Act, Right to Financial Privacy Act, Fair Debt Collection Practices Act, Children's On-Line Privacy Protection Act) risk management

Examiners should use the following indicators, as appropriate, when assessing the quality of other consumer regulations risk management.

Strong	Satisfactory	Weak
Management has an effective privacy policy that accurately reflects the operations of the bank. (Privacy)	Management has a privacy policy that adequately reflects the operations of the bank.	Management does not understand, or has chosen to ignore, key aspects of risk within the privacy regulation. Their privacy policy is ineffective and does not accurately reflect the operations of the bank.
The bank has implemented a comprehensive, board-approved written information security program that complies with section 501(b) of GLBA. (Privacy)	The bank has implemented an adequate, board-approved written information security program that generally complies with section 501(b) of GLBA but has some weaknesses.	The bank either has not implemented a written information security program, or it does not adequately comply with section 501(b) of GLBA.
Compliance actively monitors to ensure that the bank does not report credit information on their customers other than to a consumer-reporting agency. (Fair Credit Reporting Act)	Compliance adequately monitors to ensure that the bank does not report credit information on their customers other than to a consumer-reporting agency.	Compliance does not monitor to ensure that the bank does not report credit information on their customers other than to a consumer-reporting agency.
The bank has an effective system to ensure that requests for information related to customer's financial records from government agencies are responded to appropriately. (Right to Financial Privacy Act)	An adequate control system may not be fully implemented to ensure that requests for information from government agencies are responded to appropriately.	The bank does not have a control system in place to ensure that requests for information related to customer's financial records from government agencies are responded to appropriately.
Training related to privacy-related laws and regulations is effective, and resources have been provided to ensure compliance.	Management provides adequate resources and training given the complexity of products and operations for compliance with privacy-related laws and regulations.	Management has not provided adequate resources or training for compliance with privacy-related laws and regulations.
Authority and accountability for privacy-related compliance is clearly defined and enforced.	Authority and accountability for privacy-related compliance are defined, although some refinements may be needed.	Management has not established or enforced accountability for privacy-related compliance performance.
Turnover of bank staff responsible for privacy-related compliance is minimal	The bank has experienced some turnover of bank staff responsible for privacy-related compliance, but management has quickly and effectively replaced them.	Turnover of bank staff responsible for privacy-related compliance has occurred. Replacement staff has not been found.

Quality of other consumer regulations (Privacy of Consumer Financial Information, Fair Credit Reporting Act, Right to Financial Privacy Act, Fair Debt Collection Practices Act, Children's On-Line Privacy Protection Act) risk management – continued

Strong	Satisfactory	Weak
The bank either has not received any consumer complaints or, if it has, the complaint resolution process is timely and complete.	The bank responds to consumer complaints in a generally timely and complete manner.	The bank either does not respond to consumer complaints, or does so after an extended period of time. Responses are generally inadequate.
Appropriate compliance controls and systems (e.g., quality control functions, compliance audits, and self-assessments) are implemented to identify compliance problems and assess performance.	No shortcomings of significance are evident in compliance controls or systems (e.g., quality control functions, compliance reviews, compliance audits, and self-assessments). The probability of serious future violation or noncompliance is within acceptable tolerance.	The likelihood of continued compliance violations or noncompliance is high because a corrective action program does not exist, or extended time is needed to implement such a program.

Strategic Risk

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. The organization's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes.

Summary Conclusions:

Aggregate strategic risk is:

☐ Low	☐ Moderate	☐ High

The direction is expected to be:

☐ Decreasing	☐ Stable	☐ Increasing

Strategic risk indicators

Examiners should use the following indicators when assessing the aggregate level of strategic risk.

Low	Moderate	High
Risk management practices are an integral part of strategic planning.	The quality of risk management is consistent with the strategic issues confronting the organization.	Risk management practices are inconsistent with strategic initiatives. A lack of strategic direction is evident.
Strategic goals, objectives, corporate culture, and behavior are effectively communicated and consistently applied throughout the institution. Strategic direction and organizational efficiency are enhanced by the depth and technical expertise of management	Management has demonstrated the ability and technical expertise to implement goals and objectives, and successful implementation of strategic initiatives is likely.	Strategic initiatives are inadequately supported by the operating policies and programs that direct behavior. The structure and managerial and/or technical talent of the organization do not support long-term strategies.
Management has been successful in accomplishing past goals and is appropriately disciplined.	Management has a reasonable record in decision making and controls.	Deficiencies in management decision-making and risk recognition do not allow the institution to effectively evaluate new products, services, or acquisitions.
Management information systems effectively support strategic direction and initiatives.	Management information systems reasonably support the company's short-term direction and initiatives.	Management information systems supporting strategic initiatives are seriously flawed or do not exist.
Exposure reflects strategic goals that are not overly aggressive and are compatible with developed business strategies.	Exposure reflects strategic goals that are aggressive but compatible with business strategies.	Strategic goals emphasize significant growth or expansion that is likely to result in earnings volatility or capital pressures.
Initiatives are well conceived and supported by appropriate communication channels, operating systems, and service delivery networks. The initiatives are well supported by capital for the foreseeable future and pose only nominal possible effects on earnings volatility.	The corporate culture has only minor inconsistencies with planned initiatives. The initiatives are reasonable considering the capital, communication channels, operating systems, and service delivery networks. Decisions are not likely to have a significant adverse impact on earnings or capital. If necessary, the decisions or actions can be reversed without significant cost or difficulty.	The impact of strategic decisions is expected to significantly affect franchise value. Strategic initiatives may be aggressive or incompatible with developed business strategies, communication channels, operating systems, and service delivery networks. Decisions are either difficult or costly to reverse.
Strategic Initiatives are supported by sound due diligence and strong risk management systems. The decisions can be reversed with little difficulty and manageable costs.	Strategic initiatives will not materially alter business direction, can be implemented efficiently and cost effectively, and are within management's abilities.	Strategic goals are unclear or inconsistent, and have led to an imbalance between the institution's tolerance for risk and willingness to supply supporting resources.

Reputation Risk

Reputation risk is the current and prospective impact on earnings and capital arising from negative public opinion. This affects the institution's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the institution to litigation, financial loss, or a decline in its customer base. Reputation risk exposure is present throughout the organization and includes the responsibility to exercise an abundance of caution in dealing with its customers and the community.

Summary Conclusions:

Aggregate reputation risk is:

☐ Low	☐ Moderate	☐ High

The direction is expected to be:

☐ Decreasing	☐ Stable	☐ Increasing

Reputation risk indicators

Examiners should use the following indicators when assessing the aggregate level of reputation risk.

Low	Moderate	High
Management anticipates and responds well to changes of a market or regulatory nature that impact its reputation in the marketplace.	Management adequately responds to changes of a market or regulatory nature that impact the institution's reputation in the marketplace.	Management does not anticipate or take timely or appropriate actions in response to changes of a market or regulatory nature.
Management fosters a sound culture that is well supported throughout the organization and has proven very effective over time.	Administration procedures and processes are satisfactory. Management has a good record of correcting problems. Any deficiencies in management information systems are minor.	Weaknesses may be observed in one or more critical operational, administrative, or investment activities. Management information at various levels exhibits significant weaknesses.
The bank effectively self-polices risks.	The bank adequately self-polices risks.	The institution's performance in self-policing risk is suspect.
Internal control and audit are fully effective.	Internal control and audit are generally effective.	Internal control or audit are not effective in reducing exposure. Management has either not initiated, or has a poor record of, corrective action to address problems.
Franchise value is only minimally exposed by reputation risk. Exposure from reputation risk is expected to remain low in the foreseeable future.	The exposure of franchise value from reputation risk is controlled. Exposure is not expected to increase in the foreseeable future.	Franchise value is substantially exposed by reputation risk shown in significant litigation, large dollar losses, or a high volume of customer complaints. The potential exposure is increased by the number of accounts, the volume of assets under management, or the number of affected transactions. Exposure is expected to continue in the foreseeable future.
Losses from fiduciary activities are low relative to the number of accounts, the volume of assets under management, and the number of affected transactions. The bank does not regularly experience litigation or customer complaints.	The bank has avoided conflicts of interest and other legal or control breaches. The level of litigation, losses, and customer complaints are manageable and commensurate with the volume of business conducted.	Poor administration, conflicts of interest, and other legal or control breaches may be evident.
Management has a clear awareness of privacy issues and uses customer information responsibly.	Management understands privacy issues and generally uses customer information responsibly.	Management is not aware and/ or concerned with privacy issues and may use customer information irresponsibly.

Other Risks – Asset Management

Asset management risk is the current and prospective risk to earnings or capital arising from a bank's failure to fulfill its fiduciary and/or other contractual obligations that arise from the provision of asset management products and services. This risk is created by or arises from specific client agreements, legal documents, investment portfolio strategies, laws and regulations, court rulings, and other recognized fiduciary principles.

Within the framework of the OCC's RAS, national banks that provide asset management products and services are directly exposed to transaction, compliance, strategic, and reputation risks. In addition, a national bank fiduciary has indirect exposure to credit, interest rate, liquidity, and price risks because these risks are inherent in the financial instruments that it holds and in the portfolios that it manages or advises for its customers. A failure to prudently manage these risks at the account level can increase a bank's level of transaction, compliance, strategic, and reputation risk.

Summary Conclusions:

The quantity of asset management risk is:

☐ Low	☐ Moderate	☐ High

The quality of risk management is:

☐ Strong	☐ Satisfactory	☐ Weak

Examiners should consider both the quantity of risk and the quality of risk management to derive the following conclusions:

Aggregate risk from asset management activities is:

☐ Low	☐ Moderate	☐ High

The direction is expected to be:

☐ Decreasing	☐ Stable	☐ Increasing

Quantity of Asset Management Risk

Examiners should consider the following risk indicators, as appropriate, when assessing the quantity of asset management risk. It is not necessary to exhibit the characteristic of every risk indicator in a column, or even a majority of the risk indicators, to be accorded the rating at the column's head. Examiners may also consider appropriate risk indicators not listed here.

Low	Moderate	High
Strategic goals and objectives are sound, compatible with well-structured business plans, and strongly supported by the board and management.	Strategic goals and objectives are reasonable, generally compatible with business plans, and /or adequately supported by the board and management. Strategies or business plans may be deficient in some areas.	Strategic goals and objectives are unsound, incompatible with business plans, and /or inadequately supported by the board and management. Business plans are deficient in several areas.
The bank has a strong reputation in its community or business markets.	The bank has an acceptable reputation in its community or business markets.	The bank has a poor reputation in its community or business markets.
The amount of capital allocated to asset management is low and insignificant in relation to total capital.	A substantial amount of capital is allocated to asset management, but still not high in relation to total capital.	The amount of capital allocated to asset management is substantial and significant in relation to total capital.
Asset management revenue or operating profit is insignificant in relation to the bank's overall revenue or operating profit.	Asset management revenue or operating profit is an important contributor to the bank's total revenue or operating profit.	Asset management revenue or operating profit is a substantial contributor to the bank's total revenue or operating profit.
Accounts administered and/or managed are mostly noncomplex and small in size.	Some accounts administered and/or managed may be complex and large in size.	A significant number of accounts administered and/or managed are complex and large in size.
Asset management products and services are provided in a limited number of locations or branches in one state.	Asset management products and services are provided in locations or branches in more than one state.	Asset management products and services are provided in multiple locations or branches in multiple states.
Account growth is low and stable, and usually below management expectations.	Account growth is significant and generally meets or exceeds management expectations.	Account growth is significantly above management expectations.
Transaction volume is not significant, and the probability of significant loss from errors, disruptions, or fraud is minimal.	Transaction volume is substantial, but the probability of significant loss from errors, disruptions, or fraud is acceptable.	Transaction volume is substantial, and the probability of significant loss from errors, disruptions, or fraud is high.
Compliance with applicable law is good and the potential for noncompliance is minimal. Identified violations are quickly and effectively corrected.	Compliance with applicable law is satisfactory, but compliance can be improved. Identified violations are normally corrected in a satisfactory manner.	Compliance with applicable law is unsatisfactory and the potential for additional noncompliance is high. Identified violations are not corrected in a timely and effective manner.

Quantity of Asset Management Risk Indicators – continued

Low	Moderate	High
Compliance with policies and procedures is good and the potential for significant noncompliance is minimal.	Compliance with policies and procedures is satisfactory, but unauthorized policy exceptions exist and policy compliance can be improved.	Compliance with policies and procedures is unsatisfactory and the potential for additional noncompliance is high.
Audit findings are usually good. The type and volume of audit exceptions are minor. Audit deficiencies are quickly and effectively corrected.	Audit typically identifies a moderate level of exceptions that require a higher level of management involvement. Audit deficiencies are normally corrected in a satisfactory manner.	Audit typically identifies a high level of exceptions that require a significant senior management involvement. Audit deficiencies are not corrected in a timely and effective manner.
The volume and significance of litigation related to asset management is minimal.	The volume and significance of litigation related to asset management is satisfactory, but increasing.	The volume and significance of litigation related to asset management is high and increasing.
The volume and significance of complaints by clients is minimal.	The volume and significance of complaints by clients is satisfactory, but increasing.	The volume and significance of complaints by clients is high and increasing.
Risks from acquisitions, mergers, integrations, or conversions are minimal.	The bank has experienced a few noncomplex acquisitions, mergers, integrations, or conversions with moderate difficulties.	The bank has experienced complex and troublesome acquisitions, mergers, integrations, or conversions.
Risks from planned or new products and services are minimal.	The bank has offered or is planning to offer new products and services. Some may be complex.	The bank aggressively offers new, complex products and services.
Financial losses from asset management are low relative to allocated capital.	Financial losses from asset management are moderate relative to allocated capital.	Financial losses from asset management are high relative to allocated capital.

Quality of Risk Management for Asset Management

Examiners should use the following indicators, as appropriate, when assessing the quality of risk management for asset management activities.

Strong	Satisfactory	Weak
Strategic planning processes fully incorporate asset management. Asset management strategic planning and financial budgeting processes are sound.	Strategic planning processes include asset management. Asset management strategic planning and financial budgeting processes are adequate with some deficiencies.	Strategic planning processes do not include asset management. Asset management strategic planning and financial budgeting processes are inadequate and ineffective.
The board emphasizes a strong ethical culture and provides effective behavioral guidance.	The board generally emphasizes ethical behavior and provides some behavioral guidance.	The board gives little emphasis or guidance on ethical behavior.
The board has adopted asset management policies that are fully consistent with business strategies and risk tolerance.	The board has adopted asset management policies that are generally consistent with business strategies and risk tolerance.	The board has adopted asset management policies that are inconsistent with business strategies and risk tolerance.
Policies effectively establish and communicate appropriate standards and guidance for all lines of business.	Policies establish and communicate appropriate standards and guidance for most lines of business. Minor policy deficiencies exist.	Policies do not establish and communicate appropriate standards and guidance. Significant policy deficiencies exist.
Asset management is well-organized with clear lines of authority and responsibility for monitoring adherence to policies, procedures, and controls.	Asset management is adequately organized. Lines of authority and responsibility have been established, but improvement can be made.	Asset management is poorly organized. Clear lines of authority and responsibility have not been established.
The board has employed a strong management team. Management is competent, experienced, and knowledgeable of business strategies, policies, procedures, and control systems.	The board has employed an adequate management team. Management is competent, experienced, and knowledgeable in most areas.	The board has employed an inadequate management team. Management is inexperienced and may not be competent. Lacks adequate knowledge of business.
Management has implemented strong controls to ensure compliance with policies and procedures.	Management has implemented adequate controls to ensure compliance with policies and procedures.	Controls are inadequate to ensure compliance with policies and procedures.
Processes effectively identify, approve, track, report, and correct significant policy and control exceptions.	Processes generally identify, approve, track, report, and correct significant policy and control exceptions. Processes can be improved.	Processes do not identify, approve, track, report and correct significant policy and control exceptions in an acceptable manner.
Staffing levels and expertise are appropriate for the size and complexity of the business.	Staffing levels and expertise are adequate for the size and complexity of the business.	Staffing levels and expertise are inadequate for the size and complexity of the business.
Personnel policies, practices and training programs are reasonable and sound.	Personnel policies, practices, and training programs are satisfactory, but can be improved.	Personnel policies, practices, and training programs are deficient and ineffective.

Quality of Risk Management for Asset Management – continued

Strong	Satisfactory	Weak
Policies and controls to prevent and detect inappropriate conflicts of interest and self-dealing are comprehensive and effective.	Policies and controls to prevent and detect inappropriate conflicts of interest and self-dealing are adequate and generally effective.	Policies and controls to prevent and detect inappropriate conflicts of interest and self-dealing are inadequate and ineffective.
Management and the board receive comprehensive information reports to manage asset management risk.	Management and the board receive adequate information reports. Content and/or timeliness could be improved.	Management and the board do not receive adequate and/or timely information reports to manage asset management risk.
Management uses legal counsel appropriately and effectively.	Management uses legal counsel in an adequate and generally effective manner.	Management does not use legal counsel appropriately and effectively.
Risks from new products and services, strategic initiatives, or acquisitions are well controlled and understood. Products and services are thoroughly researched, tested, and approved before implementation.	Risks from new products and services, strategic initiatives, or acquisitions are adequately controlled and understood. Products and services are researched, tested, and approved before implementation, but processes could be improved.	Risks from new products and services, strategic initiatives, or acquisitions are not adequately controlled and understood. Products and services are not adequately researched, tested, and approved before implementation.
The asset management compliance program is comprehensive and effective.	The asset management compliance program is adequate and generally effective.	The asset management compliance program is deficient and ineffective.
The asset management audit program is suitable and effective. Oversight by the board and management is strong.	The asset management audit program is satisfactory, but can be improved. Oversight by the board and management is adequate.	The asset management audit program is significantly deficient. Oversight by the board and management is weak and ineffective.
Account acceptance and administration processes are strong and effective.	Account acceptance and administration processes are adequate and generally effective.	Account acceptance and administration processes are deficient and ineffective.
Processes to develop, approve, implement, and monitor client investment policies, including performance measurement, are comprehensive and effective.	Processes to develop, approve, implement, and monitor client investment policies, including performance measurement, are adequate and generally effective.	Processes to develop, approve, implement, and monitor client investment policies, including performance measurement, have significant deficiencies and are ineffective.
Processes to analyze, acquire, manage, and dispose of client portfolio assets are comprehensive and effective.	Processes to analyze, acquire, manage, and dispose of client portfolio assets are adequate and generally effective.	Processes to analyze, acquire, manage, and dispose of client portfolio assets have significant deficiencies and are ineffective.
Policies and procedures for the selection and monitoring of third-party vendors, including investment managers and advisors, are comprehensive and effective	Policies and procedures for the selection and monitoring of third-party vendors, including investment managers and advisors, are adequate and generally effective.	Policies and procedures for the selection and monitoring of third-party vendors, including investment managers and advisors, have significant deficiencies and are ineffective.

Quality of Risk Management for Asset Management – continued

Strong	Satisfactory	Weak
Management fully understands technology risks and has readily available expertise to evaluate technology-related issues.	Management generally understands technology risks and has reasonable access to expertise on technology-related issues.	Management does not understand technology risks and does not have or use available expertise on technology-related issues.
Management anticipates and responds to risks associated with operational changes, systems development, and emerging technologies in a proactive and effective manner.	Management adequately anticipates and responds to risks associated with operational changes, systems development, and emerging technologies.	Management does not adequately anticipate and respond to risks associated with operational changes, systems development, and emerging technologies.
Information systems provide comprehensive information on transaction volumes, processing errors, suspicious activity, security violations, etc. Information is accurate, timely, complete and reliable.	Information systems provide adequate information on transaction volumes, processing errors, suspicious activity, security violations, etc. Information is reasonably accurate, timely, complete and reliable.	Information systems do not provide adequate information on transaction volumes, processing errors, suspicious activity, security violations, etc. Information is deficient is several areas.
Management provides continuous and reliable operating systems, including financial and operational services provided by third-party vendors. Contingency planning is comprehensive and frequently tested.	Management provides continuous and reliable operating systems, including financial and operational services provided by third-party vendors, but occasional disruptions occur. Contingency planning is adequate but could be improved.	Management does not provide continuous and reliable operating systems, including financial and operational services provided by third-party vendors. Significant disruptions occur and contingency planning is poor.
Management understands all aspects of compliance risk and communicates a strong commitment to compliance throughout the institution.	Management understands most aspects of compliance risk and communicates a reasonable commitment to compliance throughout the institution.	Management does not adequately understand compliance risk and does not communicate a reasonable commitment to compliance.
Compliance management processes, controls, and information systems are sound and ensure meaningful corrective action is always taken.	Compliance management processes, controls, and information systems are adequate and appropriate corrective action is usually taken.	Compliance management processes, controls, and information systems are deficient. Appropriate corrective action is usually not taken or addressed.
Compliance training is a high priority and receives appropriate funding and time.	Compliance training is important and receives reasonable funding and time.	Compliance training is not given appropriate consideration, and does not receive adequate funding and time.

Appendix B: Standard Request Letter

Note: This enclosure is provided as a guide and should be modified as needed depending on the scope of the supervisory activity and the risk profile of the bank. The EIC should also indicate which items need to be provided prior to the start of the supervisory activity and which will be reviewed during the on-site portion of the supervisory activity. If activities are being conducted throughout the supervisory cycle, examiners should only request the information they need to complete the current activity. The EIC is responsible for getting the general information and maintaining it in EV to avoid duplicate requests to the bank.

During exam planning, the EIC should discuss with bank management the feasibility of obtaining the request letter information in a digital format. If the bank is able to facilitate providing a digital format, the following paragraph should be included in the request letter:

> In order for us to prepare effectively for this supervisory activity, please provide the information listed in the attachment to this request letter in digital format. In instances where this is not possible, we request the data be faxed to a designated number at our office. For larger pieces of hardcopy information, we request that you provide the information by mail. Please indicate whether any hardcopy information needs to be returned.

In addition, the request letter should include the following statement with regard to the consumer compliance portion of the examination:

> The consumer compliance examination is being conducted under the authority of 12 USC 481. However, it also constitutes an investigation within the meaning of section 3413(h)(1)(A) of the Right to Financial Privacy Act. Therefore, in accordance with section 3403(b) of the act, the undersigned hereby certifies that the OCC has complied with the Right to Financial Privacy Act, 12 USC 3401, et seq. Section 3417(c) of the act provides that good faith reliance upon this certification relieves your institution and its employees and agents of any possible liability to the consumer in connection with the disclosure of the requested information.

Management and Supervision

1. The most recent board packet. Any information included in the packet and requested below need not be duplicated.

2. Current organizational chart.

3. If any changes have occurred since the last examination, a list of directors and executive management, and their backgrounds, including work experience, length of service with the bank, etc. Also, a list of committees, including current membership.

4. If any changes have occurred since the last examination, a list of related organizations (e.g., parent holding company, affiliates, and operating subsidiaries).

5. Most recent external audit and consultant reports, management letters, engagement letters, and management's responses to findings (including audits of outside service providers, if applicable).

6. The internal audit schedule, including compliance and any other separate audits, for the current year. Please note those audits that have been completed and their summary ratings, as well as those that are in process.

7. Most recent internal audit reports including compliance and any other separate audits, as well as management's responses. Include (prior year) audit reports covering loan administration, funds management and investment activities, risk-based capital computations, Bank Secrecy Act, information processing, and any audit areas that were assigned a less than satisfactory rating.

8. A copy of any risk assessments performed by management or an outside party.

9. Brief description of new products, services, lines of business, or changes in the bank's market area.

10. List of data processors and other servicers (e.g., loan, investment). The details of the list should include:
    - Name of servicer.
    - Address of servicer.
    - Contact name and phone number.
    - Brief explanation of the product(s) or service(s) provided.
    - Note of any affiliate relationship with the bank.

    For example, services provided may include the servicing of loans sold in whole or in part to other entities, including the service provider. OCC examiners will use this list to request trial balances or other pertinent information not otherwise requested in this letter.

11. Minutes of board and major committee meetings (e.g., Audit, Risk, Loan, Asset/Liability Management, Compliance, Fiduciary, Technology Steering Committee) since our last examination.

12. A brief summary of corrective action taken to address deficiencies identified in the prior examination report.

Asset Quality

13. List of watch list loans, problem loans, past-due credits, and nonaccrual loans.

14. List of the 10 largest credits, including commitments, made since the last examination and the new loan report for the most recent quarter.

15. Most recent concentrations of credit reports.

16. Most recent policy, underwriting, collateral, and documentation exception reports.

17. List of insider credits (to directors, executive officers, and principal shareholders) and their related interests. The list should include terms (rates, collateral, structure, etc.) and be cross-referenced with any exception reports.

18. List of loan participations purchased and sold, whole loans purchased and sold, and any securitization activity since the last examination.

19. List of overdrafts.

20. Most recent analysis of the allowance for loan and lease losses including any risk rating changes from the most recent quarter.

21. List of other real estate, repossessed assets, classified investments and cash items.

22. List of small business and farm loans "exempt" from documentation requirements.

23. Latest loan review report, including any responses from the senior lending officer, account officers, etc.

24. List of board-approved changes to the loan policy and underwriting standards since the last examination.

25. The most recent loan trial balance.

26. The bank's loan policy including a description of the bank's risk rating system.

Financial Performance

27. Most recent ALCO package.

28. Most recent reports used to monitor and manage interest rate risk (e.g., gap planning, simulation models, and duration analysis).

29. Most recent liquidity reports (e.g., sources and uses).

30. List of investment securities purchased and sold for (current year) and (prior year). Please include amount, seller/buyer, and date of each transaction.

31. Most current balance sheet and income statement.

32. Most recent strategic plan, budget, variance reports, etc.

33. Current risk-based capital calculation.

34. Securities acquired based upon "reliable estimates" authority in 12 CFR 1.3(i).

35. Securities acquired using the bank's lending authority.

36. The pre-purchase analysis for all securities purchased since the last examination.

37. A summary of the primary assumptions used in the IRR measurement process and the source.

38. Current contingency funding plan.

39. Investment portfolio summary trial, including credit ratings.

40. The list of board-approved securities dealers.

41. List of shareholders and ownership.

42. Most recent annual and quarterly shareholders' reports.

43. Most recent Report of Condition and Income (call report).

44. List of pending litigation, including a description of circumstances behind the litigation.

45. Details regarding the bank's blanket bond and other major insurance policies (including data processing related coverage). Provide name of insurer, amount of coverage and deductible, and maturity. Also, please indicate the date of last board review and whether the bank intends to maintain the same coverage upon maturity.

46. Summary of payments to the holding company and any affiliates.

47. Bank work papers for the most recent call report submitted.

Information Technology Systems

48. List of in-house computer systems and networks. Include equipment vendor, type/version of system, operating system, number of terminals, and major applications accessed/processed. Provide schematics for networks (including local or wide area networks).

49. List of major software applications used by the bank. Include developer (in-house or vendor), individual/company responsible for maintenance, and computer system(s) where application is used. Include PC-based applications or spreadsheets that support the bank's risk-management processes (for example, internally developed gap report).

50. As applicable, contracts, financial analyses, and performance monitoring reports for servicers/vendors.

51. Meeting minutes from Information Technology Steering Committee (or similar) since prior examination.

52. Bank and servicer plans for disaster recovery and corporate-wide business recovery including report from most recent disaster recovery test.

53. Reports used to monitor computer activity, network performance, system capacity, security violations, and network intrusion attempts.

54. Bank policies and procedures relating to information processing or information security.

Asset Management

55. Asset Management organizational chart and resumes of senior asset management officers hired since the last examination.

56. Bank policies and procedures relating to Asset Management activities.

57. Most recent management reports, including those used to monitor new and closed accounts, account investment reviews, overdrafts, financial results, etc.; exceptions; and compliance/risk information related to Asset Management.

58. Information on investment activities, including the most recent analysis of investment performance, any approved securities lists, arrangements with mutual funds, and approved brokers/dealers.

59. Information on Asset Management operations, including a user access report for the trust accounting system. Please make available the most recent reconcilements of general ledger, cash/DDA and suspense/house accounts, and securities held at depositories.

60. Asset master list reflecting CUSIP (if applicable), description, number of units, book value and market value for each asset. The asset master list should include unique assets such as real estate, closely held securities, and other nonmarketable assets.

61. Most recent Asset Management trial balance. Please include account name, account number, account type, the bank's investment authority, and market value for each account. Also identify accounts opened within the past 12 months.

Retail Sales of Nondeposit Investment Products

62. Information on retail sales activities including the bank's program management statement, agreements with any vendors providing retail sales services, MIS used to monitor activities, employee referral programs, and complaints.

Insurance Activities

63. A description of the bank's insurance activities, planned changes, and client complaint information.

Consumer Compliance

64. A list of approved changes to the bank's compliance policies and procedures since the last examination.

65. Board-approved Bank Secrecy Act compliance program, including compliance with 12 CFR 21.21.

66. A description of the bank's training programs and criteria for ensuring that employees receive job appropriate compliance training.

67. A list of products, services, customers, and geographies with a high risk for money laundering. In addition, please complete the attached "Quantity of Risk Summary Form."

68. Provide an overview of your key internal controls and management information reports to detect suspicious cash activity, wire transfer activity, monetary instrument sales, and transactions involving high-risk jurisdictions.

69. A list of nonresident alien accounts.

Appendix C: Community Bank Report of Examination

Since 1993, examiners have written examination reports consistent with the interagency uniform common core Report of Examination (ROE) format. Recently, the federal banking agencies agreed to a more flexible approach in writing reports of examination. This appendix outlines how the OCC will implement this new flexibility and supplements Examining Bulletins 93-7, "Interagency Common Core Report of Examination," and 93-9, "Report of Examination."

Specifically, a streamlined ROE will generally be used for all community banks. For community banks supervised by the Large Bank division, examiners should follow guidance on communications in the "Large Bank Supervision" booklet of the *Comptroller's Handbook*.

Examination reports for community banks with composite ratings of 1 or 2 need only address the mandatory items below. Individual ROE pages are available for each of these items. Based on the bank's condition and risk profile, examiners have the discretion to use these individual ROE pages or address the mandatory items under the "Examination Conclusions and Comments" page. Examiners should include additional *supplemental* pages, as appropriate, based on the risk profile of the bank and the results of the supervisory activities. If any component rating is 3 or worse, the examiner must use the appropriate narrative page. Other schedules related to that component rating should also be used, as needed. In addition, examiners will use the applicable narrative page to communicate significant supervisory concerns, such as the bank's unwarranted risk taking. A narrative page can also be used to explain when supervisory activities have been expanded due to the bank's high overall risk profile.

As specified in Examining Bulletin 93-9, the examiner is still required either to complete a separate ROE for targeted examinations of areas such as compliance or asset management or to include the information on the appropriate optional page in the ROE at the end of the supervisory cycle.

The uniform common core ROE is still required for:

- Community banks rated composite 3 or worse, or
- Community banks that have been in operation less than 3 years.

Mandatory ROE Items

- **Examination Conclusions and Comments**

  Examiners will detail the conclusions and recommendations identified during the examination. This page will also include composite and component CAMELS/I ratings, and other regulatory ratings as appropriate. A brief comment should be included to support each rating. As appropriate, a statement that no Matters Requiring Attention were noted should also be included on this page.

- **Management/Administration**

  Examiners will assess the board's and management's supervision, including audit and internal controls.

- **Summary of Items Subject to Adverse Classification/Items Listed as Special Mention**

  Examiners will list of assets subject to adverse classification/special mention.

- **Risk Assessment Summary**

  Examiners will assess the quantity of risk, quality of risk management, aggregate level of risk, and the direction of risk for each risk category using the RAS matrix. A brief narrative comment of each risk category may be included to communicate concerns that are not addressed elsewhere in the ROE.

- **Signature of Directors**

  Examiners will include the "Signature of Directors" page from the standard ROE shell.

The following pages become mandatory under the circumstances described below:

Matters Requiring Attention must be completed when there are significant supervisory issues that require the board and management's attention.

Concentrations must be completed when concentrations are identified that pose a challenge to management, or present unusual or significant risk to the bank. The concentration data must also be entered into Examiner View.

Compliance with Enforcement Actions must be completed whenever the bank is under a formal or informal enforcement action.

Violations of Laws and Regulations is required whenever substantive legal and regulatory violations are identified.

Supplemental Pages

Examiners will include supplemental pages if they are relevant to the supervisory activity and justified by the bank's condition and risk profile. If a component rating is 3 or worse, the examiner must use the applicable narrative page. Other schedules relating to the component rating are not necessarily required but should be used as needed.

Supplemental pages:

- Capital Adequacy
- Asset Quality
- Earnings
- Liquidity — Asset/Liability Management
- Sensitivity to Market Risk
- Comparative Statements of Financial Condition
- Capital Calculations
- Analysis of Earnings
- Information Technology Systems
- Consumer Compliance
- Fair Lending
- Asset Management
- Community Reinvestment Act
- Loans With Structural Weaknesses
- Items Subject to Adverse Classification
- Items Listed for Special Mention
- Credit or Collateral Exceptions
- Loans and Lease Financing Receivables/Past Due and Nonaccural Loans and Leases

- Other Matters
- Additional Information
- Report Abbreviations

References

Note: This section lists some of the references frequently used by examiners to supervise community banks.

Capital

12 USC 56 and 60, Dividends
12 USC 1817(j), 12 CFR 5.50, Control of the Bank
12 CFR 3, Minimum Capital Ratios
OCC Banking Circular 268, “Prompt Corrective Action”

Asset Quality

12 USC 84, 12 CFR 32, Lending Limits
12 CFR 34, Real Estate Lending and Appraisals
OCC Advisory Letter 2000-9, “Third-party Risk”
OCC Banking Bulletin 93-18, “Interagency Policy on Small Business Loan Documentation”
OCC Banking Circular 181, “Purchases of Loans in Whole or in Part — Participations”
OCC Bulletin 99-10, “Interagency Guidance on Subprime Lending”
OCC Bulletin 2000-20, “Uniform Retail Credit Classification and Account Management Policy”
OCC Bulletin 2001-37, “Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions”
FAS 66, “Accounting for Sales of Real Estate”
FAS 114, “Accounting for Creditors for Impairment of a Loan”

Management

12 USC 375a & b, 12 CFR 31, 12 CFR 215, Loans to Executive Officers, Directors and Principal Shareholders
12 CFR 30, Safety and Soundness Standards
OCC Bulletin 99-37, “Interagency Policy Statement on External Auditing Programs”
OCC Bulletin 2003-12, “Interagency Policy Statement on Internal Audit and Internal Audit Outsourcing”

Earnings

Federal Financial Institutions Examination Council, "Consolidated Reports of Condition and Income — Instructions"

Liquidity and Sensitivity to Market Risk

12 CFR 1, Investment Securities
OCC Banking Circular 127(rev), "Uniform Classification of Assets and Appraisal of Securities"
OCC Banking Circular 277, "Risk Management of Financial Derivatives"
OCC Bulletin 98-20, "Investment Securities — Policy Statement"
OCC Bulletin 99-2, "Risk Management of Financial Derivatives — BC-277 Supp. 1"
OCC Bulletin 99-46, "Interagency Guidance on Asset Securitization Activities"
OCC Bulletin 2000-16, "Risk Modeling — Model Validation"
OCC Bulletin 2000-23, "Bank Purchases of Life Insurance"
OCC Bulletin 2002-19, "Unsafe and Unsound Investment Portfolio Practices: Supplemental Guidance"
FAS 52, "Foreign Currency Translation"
FAS 115, "Accounting for Certain Investments in Debt and Equity Securities"

Information Technology

OCC Advisory Letter 2000-12, "Risk Management of Outsourcing Technology Services"
OCC Banking Circular 226, "End-User Computing"
OCC Bulletin 98-3, "Technology Risk Management — Guide for Bankers and Examiners"
OCC Bulletin 98-38, "Technology Risk Management: PC Banking Guidance for Bankers and Examiners"
OCC Bulletin 99-3, "Uniform Rating System for Information Technology"
OCC Bulletin 2001-8, "Guidelines Establishing Standards for Safeguarding Customer Information"
OCC Bulletin 2001-17, "Uniform Rating System for Information Technology"
Federal Financial Institutions Examination Council, "Information Technology Examination Handbook"

Asset Management

12 CFR 9, Fiduciary Activities of National Banks, Rules of Practice and Procedure
12 CFR 12, Record Keeping and Confirmation Requirements for Securities Transactions
OCC Banking Circular 275, "Free Riding in Custody Accounts"
OCC Bulletin 96-25, "Fiduciary Risk Management of Derivatives and Mortgage-backed Securities"
OCC Bulletin 97-22, "Fiduciary Activities of National Banks – Q&A's 12 CFR 9"
OCC Bulletin 98-46, "Uniform Interagency Trust Rating System"
OCC Bulletin 2000-26, "Supervision of National Trust Banks"
Trust Banking Circular 18, "Adoption of Interagency Agreement on ERISA"
"National Bank Transfer Agents' Guide"

Consumer Compliance

12 USC 3401, Right to Financial Privacy Act
15 USC 1681, Fair Credit Reporting Act
15 USC 1692, Fair Debt Collection Practices Act
15 USC 6501, Children's Online Privacy Protection Act
12 CFR 21.21, Bank Secrecy Act Compliance
12 CFR 22, Loans in Areas Having Special Flood Hazards
12 CFR 202, Equal Credit Opportunity (Regulation B)
12 CFR 205, Electronic Funds Transfers (Regulation E)
12 CFR 226, Truth in Lending (Regulation Z)
12 CFR 229, Availability of Funds (Regulation CC)
12 CFR 230, Truth in Savings (Regulation DD)
24 CFR 3500, Real Estate Settlement Procedures Act
OCC Bulletin 2000-25, "Privacy Laws and Regulations"

Other

OCC Bulletin 2002-9, " National Bank Appeals Process"
OCC Bulletin 2001-47, "Third-Party Relationships: Risk Management Principles"
PPM 5000-34, "Canary Early Warning System"
PPM 5400-8 (rev), "Supervision Work Papers"
PPM 5400-9, "De Novo and Converted Banks"

Comptroller's Handbook

Safety & Soundness

"Accounts Receivable and Inventory Financing"
"Agricultural Lending"
"Allowance for Loan and Lease Losses"
"Asset Securitization"
"Bankers' Acceptances"
"Bank Supervision Process"
"Commercial Real Estate and Construction Lending"
"Consigned Items and Other Customer Services"
"Country Risk Management"
"Credit Card Lending"
"Emerging Market Country Products and Trading Activities"
"Examination Planning and Control"
"Federal Branches and Agencies Supervision"
"Insider Activities"
"Insurance Activities"
"Interest Rate Risk"
"Internal and External Audits"
"Internal Control"
"Large Bank Supervision"
"Lease Financing"
"Liquidity"
"Litigation and Other Legal Matters"
"Loan Portfolio Management"
"Management Information Systems"
"Merchant Processing"
"Mortgage Banking"
"Rating Credit Risk"
"Risk Management of Financial Derivatives"
"Sampling Methodologies"
"Trade Finance"

Asset Management

"Asset Management"
"Conflicts of Interest"
"Custody Services"

Asset Management (continued)

"Investment Management Services"
"Personal Fiduciary Services"

Consumer Compliance

"Bank Secrecy Act/Anti-Money Laundering"
"Community Reinvestment Act Examination Procedures"
"Compliance Management System"
"Depository Services"
"Fair Credit Reporting"
"Fair Lending Examination Procedures"
"Flood Disaster Protection"
"Home Mortgage Disclosure"
"Other Consumer Protection Laws and Regulations"
"Overview"
"Real Estate Settlement Procedures"
"Truth in Lending"

For examination areas that are not currently covered by booklets from the *Comptroller's Handbook*, examiners should continue to refer to the appropriate sections in the *Comptroller's Handbook for National Bank Examiners*.