

**Third Quarter FY 2008  
(April 1 – June 30, 2008)  
OIG Report on the Survey of FCS Institutions  
Regarding the Examination Function**

**Introduction**

Institutions are surveyed generally no more frequently than every 12 months, and no less frequently than every 18 months. Through this FY's third quarter 71 institutions have been surveyed.

Based on the interface FCS institutions had with the Agency's examination function during the period April 1 – June 30, 2008, OE identified 30 FCS institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 30 institutions on July 29. A follow-up e-mail was sent to nonresponding institutions on August 28. Of the 30 institutions surveyed, 22 submitted completed surveys. If the 8 nonresponding institutions subsequently send a completed survey, they will be included in the next quarterly report.

One response to the survey issued for the second quarter of FY 2008 was received subsequent to the second quarter report and is included in this report. As a result, this report covers 23 responding institutions.

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

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

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

Narrative responses are provided verbatim, except that any identifying information has been removed and any grammatical, punctuation, or other such errors may have been corrected. Any information in "Italics" has been inserted by the OIG based on follow-up with the institution.

**Reporting**

The OIG provides a report on survey results based on each FY quarter-end, i.e., December 31, March 31, June 30, and September 30, so that you may timely take whatever action you deem necessary to address the responses. A summary report is also issued covering aggregate survey results for each FY ended September 30.

### **Survey Results – Third Quarter FY 2008**

1. Average numerical responses to survey statements 1 - 10 range from 1.7 to 2.3. (The second quarter averaged 1.7 to 2.2, the first quarter averaged 1.9 to 2.2; for all of FY 2007, the average was 1.7 to 2.2.)
2. The average response for all survey statements is 1.9. (The second quarter's average was 1.9, the first quarter's average response was 2.0; for all of FY 2007, the average response was 1.9.)

As you can see, the numerical responses on the whole do not change much from quarter to quarter.

However, individual institutions may vary significantly in how they rate survey statements and in their reaction to the examination process and the examiners.

For example, in this quarter's survey responses, one institution rated three survey statements (3, 6, and 9) as a 4 (Disagree) and two (5 and 8) as a 5 (Completely Disagree), or negative responses to five of the ten survey statements. Further, the other five survey statements received a rating of 3 (Neither Agree nor Disagree). So, the institution did not provide a favorable response to any of the survey statements. The first bullet under survey statement 3 is the institution's comment pertaining to its 4 (Disagree) rating for this survey statement. The first bullet under survey statement 8 is the institution's comment pertaining to its 5 (Completely Disagree) rating on both survey statement 8 and 5. Question 11b asks for feedback on the least beneficial aspect of the examination process. The first bullet under 11b is the institution's comment. *I separately called the institution's CEO and Audit Committee chairman to discuss their negative ratings and comments. They were consistent in their criticism of the examination process and the lead examiners. Their major concern was their perspective of inaccuracy on the part of the examiners. They both gave me several examples of what they believed were incorrect assertions by the examiners both orally and in the report. Compounding this perception on their part was their feeling that the examiners (particularly the EIC) were not receptive to the institution's position and perspective on issues. The Audit Committee chairman characterized their demeanor as "...had their heels dug in."*

Another institution rated survey statements 4, 5, and 7 as a 4 (Disagree). The first bullet under survey statements 4 and 5 pertain to the 4 (Disagree) rating for each survey statement. The first bullet under 5 also pertains to the 4 (Disagree) rating for survey statement 7. Survey statement 6 was rated as a 6 (Does Not Apply). However, in this case, this seemed a negative rating as described by the first bullet under this survey statement. Survey statements 8 and 9 were rated 3 (Neither Agree nor Disagree). The second bullet under each relates to the 3 rating and implies a negative perspective. *I called the CEO regarding their negative ratings and comments. He indicated that the examination process was "...very frustrating."* *The referenced comments under survey statements 4, 5, 6, 7, 8, 9, the second bullet under question 11b, and the first bullet under question 12 reflect this opinion.*

A third institution rated survey statement 7 as a 4 (Disagree). The first bullet under survey statement 7 is the institution's comment pertaining to the 4 (Disagree) rating.

A fourth institution rated survey statement 5 as a 4 (Disagree). The second bullet under survey statement 5 is the institution's comment pertaining to the 4 (Disagree) rating.

Question 11a asks for feedback on the most beneficial aspects of the examination process. Many very positive comments were received.

Question 11b asks for feedback on the least beneficial aspects of the examination process. The comments received to this question, as well as those provided under the various survey statements, may provide opportunities for you to refine examination methodology and communications, and examiner training.

Question 12 asks for any other comments. Most comments were very positive except for the first bullet.

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

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

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

**Average Response:** 1.7 (second quarter 1.8; first quarter 2.0)

**Comments:**

- A targeted approach makes a lot of sense.
- FCA's focus on risk rather than procedural matters is appropriate. Need to continue to evaluate key risks and focus the strength and scope of the audit team on those existing and emerging issues.
- Focused on size, complexity and risk profile given our corporate transition in progress.

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

**Average Response:** 2.1 (second quarter 2.0; first quarter 2.1)

**Comments:**

- We work hard to understand authorities and to comply with laws and regulations. Examination findings generally confirm our understanding.
- We feel we have a good understanding but this process provides a forum to discuss different interpretations.

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

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

**Comments:**

- Many comments made by the examiners during the presentation to the Board were opinions of the examiners and not related to safety, soundness, or compliance.
- Recommendations were appropriate and have resulted in stronger controls.

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

**Average Response:** 1.9 (second quarter 1.9; first quarter 2.1)

**Comments:**

- Do not believe the knowledge of this examination team as a whole was at the level needed to be credible and effective.
- Increasing complexity of this business in combination with staff turnover is creating a challenge for regulator.
- Examiner in Charge and supervisor were knowledgeable but the trainees used in compliance and loan file review have a ways to go.

**Communications and Professionalism**

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

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

**Comments:**

- Information was requested prior to the exam and more information that could have been requested prior to exam was requested during exam. Very unorganized approach. This was the most interruptive exam we have had in years as it interfered with us carrying on business during the examination.
- The Examination Report was dated more than two months after the on-site work. A more timely report would be helpful to ensure an appropriate response.
- Letters of engagement and notification arrive too late and pre exam requests for information are limited, so a lot of reports and info needed to be gathered after arrival and key personnel were not available making this difficult. We appreciate the opportunity to exchange views with examiners, especially directly with the Audit

Committee. At this year's discussion, we identified philosophical differences around use of outside capital and its role in our capital structure. We were able to discuss those differences openly and honestly.

- The exam team was prepared, communicated their plans ahead of time and was professional in their conduct of their duties.
- The level of communication and professionalism of the exam team was outstanding. A positive and constructive tone was set by the examiner-in-charge prior to the on-site examination and this carried through to the draft report.
- A high level of communication...very much appreciated.
- The examination staff did a great job of explaining their scope of review and did an outstanding job of discussing their findings.

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

**Average Response:** 1.9 (second quarter 1.7; first quarter 2.1)

**Comments:**

- The exit conference was two months after the on-site examination.
- The report and report presentation were precise and professional.

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

**Average Response:** 1.9 (second quarter 2.2; first quarter 1.9)

**Comments:**

- Exam team members, like most, were from various areas within FCA. For some reason, most did not have access to documents previously provided to FCA and stored at our main site. Therefore, we had to provide many documents again which had been previously provided.
- While on site, very good.
- The team was in and out of the institution in a very efficient and effective manner.
- The exam team was well prepared so that on-site interaction was meaningful and not disruptive. All visits to the institution and requests for info were always closely coordinated.
- Travel schedules limited some of their time spent in our offices.

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

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

**Comments:**

- Several specific statements in the report were not accurate and misrepresented the truth. Examiners were repeatedly provided with correct information but ignored the facts.
- Do not know.
- They were open to the board and had good discussions and answers to questions.
- They were very responsive to feedback give on draft language of the report yet maintained their primary message to the organization.
- Excellent dialogue on issues of concern insured complete understanding of the positions of all parties.
- We appreciate the examiners openness and willingness to discuss issues and consider alternative views.

**Best Practices and Regulatory Guidance**

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

**Average Response:** 2.3 (second quarter 2.0; first quarter 2.0)

**Comments:**

- It would have been helpful to know upfront about the FCA's expectations for communication and follow-up with the institution's Board regarding National Examination Activity.
- Do not have a report.
- We put a lot of effort into staying current on industry best practices. Recommendations from examiners generally confirm our understanding and use of such best practices.
- Some of the recommendations in the national exams are too cumbersome and expensive for our institution. Especially some of the recommendations in the IT exam.
- Our team will always be interested in best practices or alternative ways of conducting business.

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

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

**Comments:**

- It would have been helpful to know upfront about the FCA's expectations for communication and follow-up with the institution's Board regarding National Examination Activity.
- The numerous informational memorandums have been helpful over the past couple of years.
- Info shared on governance was very helpful as we changed our policies and procedures.

**[Responses to Survey Questions 11a, 11b, and 12](#)**

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

**Comments:**

- Ability to provide overview of operations, initiatives, institution focus for the current and future years. Review strategies and execution.
- Interaction with examiners.
- Open communication and discussion of any issues with the examiners, both on- and off-site.
- Ability to communicate and exchange views openly and honestly. Direct communication with Audit Committee.
- Communication of best practices.
- Quality and knowledge of examiners.
- Interaction with examiners on agency positions or prospective positions and scope of lending.
- Identified weaknesses in loan analysis and offered suggestions.
- Strong evidence was provided on specific findings along with corresponding corrective action expectations.
- Dialogue with exam team. Recent examiners-in-charge have set a very constructive tone.
- It appears that the examiners have become more of a resource for the institution. We consider this to be a tremendous help as we fulfill our mission.
- The interaction of examination staff and managers discussing current issues, challenges, and potential responses to audit findings. National exam activity does provide a limited view to best practices.
- The discussions with the Supervisory Examiner have been helpful.
- General comment...examiners were very professional.
- Ongoing discussion with lead examiner. We appreciate the high level of communication we have with the agency.

- The communication with exam staff before, during and after the examination.
- Experienced lead examiner and open exchange of thoughts and ideas.

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

**Comments:**

- Inaccurate statements included in the report.
- Lack of organization/knowledge of examiners. Gave us list of what was needed prior to arrival and when on site wanted different information.
- None, we appreciate the interaction.
- Recommendations for enhancements to Scope of Lending (Other Credit Needs Financing) policy and direction. More discussion of general business philosophy and model.
- Compliance—duplicated what we already do.
- Interaction with the Board in executive session relative to the overall risks in the company lacked a balanced perspective.
- The exam process, while comprehensive, could have been better targeted to exam areas that have the highest risk exposure with less focus on more mechanical issues.
- The onsite exam started and about 5 months later was the Board presentation of the exam. That is too long a time span, however I understand that resources are the issue and the exam was quite clean.
- The national exam process.

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

**Comments:**

- FCA and association/Funding Bank should have discussion prior to arrival to know compatibility of software/hardware. Examiners should know how to use electronic files.
- Exam was conducted in a very professional manner.
- We support the national examination activity approach.
- This was an abbreviated exam due to pending merger. The timeliness of reporting to the Board following the examination was greatly appreciated.
- Routine dialogue with the Office of Examination has improved the exam process.
- We did very much appreciate the dialog throughout the process and opportunity to comment at all stages. The opportunity to review the initial drafts is very helpful. It ensures that we have a common understanding of any concerns. It provides a forum to get responses to potential remedies, and it builds better “buy in” to issues.