

EXAM READY

by [Steve Brown](#)

Bankers are always trying to figure out what the next regulatory examination team will be looking for in an effort to be better prepared. Well, we have been asking around and thought our readers might like to know what we found. Remember, this is not intended to be all inclusive list and focus/interest by examination team can vary widely, so be careful about drawing too many conclusions from the information we provide. That said, we figured any help is better than none, so hopefully the information we provide herein helps.

Board - Be prepared to provide monthly board minutes from the last regulatory examination, up to and including the current examination date. Information required will likely include shareholder meetings, board package information, Board approved strategic plan and budgetary information (for the past year and the current one).

Loans - Regulators will want to see a complete list of loans and a break down of any concentrations. While that is not all that unusual, expect a close look at construction and land - particularly those that include interest reserves. Regulators are closely monitoring interest reserves and want to see the original loan amount, outstanding loan amount, internal rating grades, grade history, term of reserve, funding history of the reserve and whether the reserve was funded by the borrower or the bank.

OREO - Expect to provide a list of assets, including the date acquired, book value, the last time review and last appraisal/valuation. Detailed borrower information and disposition strategy (if appropriate) is helpful.

Consumer - Given such stress in the system, regulators are looking closely at any residential mortgage loan with a FICO of 660 or less (subprime). Whether the bank originated and sold it off, or kept it, expect close scrutiny. Interest only ARMs, option pay, low doc, alt-A and any other such structures should be individually analyzed, tracked and reported.

Policies - Banks should review policies and procedures at least 1x per year and submit any modifications to the Board for approval. Loan, investment, audit, capital and other policies are critical these days given market events. If you have not yet kept up, now may be the time to consider updating them.

Liquidity - This is a huge area of concern these days. Update polices, test dynamic and static liquidity events and create a list of large depositors by name/amount. Make sure management, ALCO and the Board gets a weekly or monthly report listing liquidity sources and their status. The list should detail amount outstanding, available amount, average cost of borrowing (of all outstanding amounts), current rate/fees (for new borrowings), maturities available, any requirement of collateral, timing of new borrowings and other factors.

ALLL - Simply having a 2% reserve and a bunch of segmentation reports won't cut it any more. Reserves are not keeping pace with loan losses in general, so the regulators are more closely scrutinizing components and how reserves are calculated. Bankers should analyze whether the ALLL reflects a normalized provision or a stressed one. For instance, if sectors of the portfolio are deteriorating, the ALLL trend for FAS 5 should capture that. It isn't enough to set up specific reserves

under 114 and assume all is well. Banks need to incorporate charge-off history, future expectations, economic conditions, concentrations and other factors, all within a robust analytical framework. The greater the concentration by type or borrower, the more a bank can expect heightened regulatory scrutiny.

Preparation is the key to any examination and documentation is critical. As a general rule of thumb, whatever you did last year to prepare is probably going to take twice as long and require twice as much detail. Showing examiners your bank has a good handle on things, regularly reports to the board and continually updates management about changing risks will go a long way. You might not get an "A+" on the test this time around, but given all that is going on in the economy and industry, getting a "B" is enough to ensure a passing grade.

BANK NEWS

M&A

Independence Federal Savings (\$172mm, DC) will acquire ColomboBank (\$168mm, MD) for an undisclosed sum.

M&A

Glacier Bancorp (\$1.19B, MT) will acquire First National Bank & Trust (\$276, WY) for 100k shares and \$450k in cash (an aggregate value of about \$17.5mm).

TLGP

The FDIC extended the program from June to Oct. 31. This gives banks more time and more liquidity options. We still look to have our program out shortly for both investors and issuers with maturities ranging from 32 days to 3Ys.

M&A 08

170 deals were struck in 2008 totaling \$36.5B, comparatively less than 2006 and 2007 with 275 deals priced at \$108.4B and 272 deals struck for \$72.5B, respectively.

Foreclosure Halt

Until the Treasury better defines its foreclosure mitigation program, the OTS asked savings associations to temporarily suspend foreclosures of owner-occupied homes.

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