



Helpful Tips For Your Next Exam

regulatory risk management

Summary: The new Part VI of the FDIC policy manual provides good insight before your next exam. We give you the highlights.

The average person has about 27 conversations each day that last about 10 minutes each. Also interesting - each person uses about 16,000 words per day in those conversations.

No matter whom you talk to today, when talking to regulators it makes sense to be somewhat prepared. For example, if you've ever found yourself scratching your head over some of the questions and methods used by bank examiners, you can gain a better understanding of why and how they do what they do simply by looking at examination policy manuals.

So, with that, we wanted to highlight the new Part VI of the [policy manual](#), which deals with "Examination Processes and Tools." What's clear is that examiners are tightly focused on risk and are also directed to minimize disruption at banks.

One of the ways the FDIC tries to minimize disruption is by keeping its examiners out of banks as much as possible. The manual stipulates several aspects of an examination that it expects to be conducted offsite. As a bank, it makes sense then to try to have these items ready to hand off ahead of time. Offsite items include your internal reports, written policies and procedures, independent audits and reports, loan policies, and loan loss estimate methodology.

Examiners are also encouraged to review credit and investment files offsite, so if you can provide those in a format for such a review, you will make your examiner happy and streamline the entire process.

You might be surprised, but the less time an examiner spends at your bank, the better, according to the FDIC directives. Ideally, they want to devote most of their on-site time to discussions with management and observing operations.

Examinations are a team effort of course, so the team assigned to a bank is expected to have at least weekly communications to discuss the exam. Whatever you say or provide to one member of the regulatory team you can expect will be shared with the rest.

Understand that examiners are viewing everything through a risk lens. They are tasked with tailoring exams to risk levels, with low-risk areas within a bank getting minimal attention while high-risk areas get the full treatment.

One of the key attributes that sets off risk alerts for examiners is complexity. Complex investments, loans, operations or procedures can all lead to more intensive examinations. So, if you have simpler loans and processes, expect less attention than more complex banks.

Of course, a bank with risk issues in its operations or lending should be prepared for a more intensive examination. The manual also notes that examiners should also pay special attention to how third-party

vendors are being used and how new technology is being deployed and managed. They want to know whether those elements are increasing risk.

We hope we have given you some helpful tips on how to make your next exam and your regulatory communications better.

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