



## Four Tips For Your Next Regulatory Examination

regulatory lending

**Summary:** Your next regulatory exam will bring some pandemic-specific questions. We give you four tips to ensure you are ready.

Glaucoma damages the optic nerve and leads to blindness. Luckily, many of us get annual eye examinations which are vital in its detection. Another type of examination - the regulatory kind - is also important and the pandemic has created additional exam questions. We help you address them.

You and your peers have been doing all you can to help customers who have been hit hard financially. While you have followed all procedures and guidelines, it has been an unpredictable time when your customers needed a little extra help. While regulators have signaled that they would not automatically adversely rate COVID-related modifications, examiners will look to make sure institutions are making such accommodations in a prudent and consistent manner.

So, how can you best prepare for your upcoming exams to demonstrate you're making prudent decisions that are consistent across all customer demographics? We have four tips to help prepare you for your next examination.

**1. Stay consistent with safety and soundness.** Make sure your accommodation policies, while flexible, stay consistent with safety and soundness best practices, including provisioning appropriately. To avoid pandemic-related accommodations from being classified as troubled debt restructurings, examiners will want to see if your institution is modifying loans in good faith to borrowers who had been current on their payments prior to the pandemic.

Further, institutions must structure accommodation terms to reflect that the obligation will be repaid, either by extending the maturity date or by making deferred payments due in a balloon payment by the original maturity date. These modified payment terms must be clearly disclosed.

**2. Serving customers consistently.** Institutions need to make sure they're adequately following consumer protection requirements, including fair lending laws, so that all borrowers can benefit from accommodations. Examiners will take into account any special circumstances impacting borrowers and institutions, yet overall they are looking to see that institutions are making good-faith efforts by having a methodical process that shows every request is being evaluated in a consistent way.

**3. Document all accommodation decisions.** Institutions must document the prior status of each loan accommodation, and how borrowers are currently complying with the modified terms, or how they plan to eventually repay the loan. Institutions should also consider including whether they've determined alternative sources of repayment, including collateral revaluations.

**4. Reinforce board oversight.** Boards that typically meet quarterly should consider meeting more frequently, remotely via Zoom if necessary. Examiners will want to see if boards are providing appropriate oversight of accommodation policies and procedures. Examiners may also ask boards if they've reassessed the institution's capital and liquidity positions, and whether they've made contingency plans to maintain cushions.

While we realize most of these are on your radar already, we thought it may help to have them on top-of-mind as you meet with your examiners. We wish you a successful examination.

## COVID-19 IMPACTING YOUR RESERVE

The continuing uncertainty due to COVID-19 makes preparing for year-end and 2021 challenging. Our complimentary report, which has been updated to reflect the most current forecasts, can help. The Q3 report is now available. Simply download [Reserve Insights: COVID-19](#) today. Needing more assistance? Talk to us about Stress Testing.

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