

This document and any attachments are superseded by the Comptroller's Handbook - Bank Supervision Process.

Examination Scheduling, Scoping, and Management

The Office of Thrift Supervision (OTS) conducts comprehensive examinations to thoroughly assess each saving association's risk profile and produces one report of examination (ROE) addressing safety and soundness (S&S), compliance and, when applicable, trust department operations. (See the Trust and Asset Management Handbook for guidance.) OTS also recently enhanced the comprehensive ROE to include a risk assessment summary matrix to document the quantity of risk, quality of risk management, aggregate risk, and direction of risk. (See [CEO Memo 369](#), dated October 8, 2010.)

LINKS

- [!\[\]\(b1b781be830eb908d845c527ab08d5f8_img.jpg\) Program](#)
- [!\[\]\(2176a4ba510fa27404d783166e891577_img.jpg\) Appendix A](#)
- [!\[\]\(a3b1c8d49688274496e55f2751cb8993_img.jpg\) Appendix B](#)
- [!\[\]\(428d7e9195be7f8a26074c24b6c91839_img.jpg\) Appendix C](#)
- [!\[\]\(ed97b77223b22ee5f7630fce8232c643_img.jpg\) Appendix D](#)

Key considerations in a comprehensive examination:

- To consider findings related to Capital, Asset Quality, Earnings, Liquidity, Sensitivity (CAMELS), Compliance, and Trust in the Management evaluation and component rating. Assess the overall adequacy and effectiveness of risk management and compliance management functions of the association.
- If the EIC determines that a transactional level review of a certain activity is necessary from both a safety and soundness and compliance review standpoint, then the EIC should ensure that one examiner conducts the review efficiently and without redundancy. For instance, when reviewing single-family loan files for the asset quality review, the same examiner can check compliance information such as flood and RESPA, based on examination needs and identified risks.

The comprehensive examination process includes the PERK PAC, which makes available S&S and Compliance information schedules in addition to schedules and questionnaires for specialty areas.

This Handbook Section addresses examination strategy and objectives, examination scheduling on 12- and 18-month cycles, scoping and planning, and examination management. This section also provides guidance for intervening state, Limited, Eligibility, and Joint OTS/FDIC examinations.

EXAMINATION STRATEGY AND OBJECTIVES

Timely, efficient, and risk-focused examinations are essential to an effective regulatory oversight function.

Timely examinations ensure that the agency stays abreast of changes in the condition or management of an association. OTS must schedule a full scope, on-site examination of each insured depository institution within the appropriate timeframe for that institution. An efficient examination eliminates multiple reviews of the same area for different purposes by combining safety and soundness and compliance reviews of the same areas such as lending or deposits.

Timely, efficient, and risk-focused examinations are essential to an effective regulatory oversight function.

OTS bases the timing of an on-site examination partly on the risk profile of the association, and partly on the scope of examination for any given association. All examinations should be *risk-focused*, meaning that you spend more time looking at higher risk areas within an organization and less time looking at low risk areas. A risk assessment considers the nature of an association's operations, the quality of management and staff, and the adequacy of management and the board's ability to identify, manage and monitor risk, and take timely action to remedy identified problems.

Risk-focused examinations assist the agency in ensuring *efficient* use of its resources and ensures that examiners spend the most time looking at areas or activities that pose the most risk. We also achieve efficiency in the examination process through a well-managed examination. Staffing should be appropriate to the size of the association and the scope of the review. In addition, the EIC achieves economies of scale whenever possible to eliminate any redundancies in the review process. In those associations with effective compliance management functions and a lower risk loan portfolio, transactional level review may be minimal and thus limit the opportunities for combining transaction review processes.

The goal of the comprehensive examination process is to conduct an examination that reviews the compliance and the CAMELS component areas. Based upon the findings in each of these areas, the examination team should be able to make an overall assessment of the association in terms of the risk management and compliance management functions, as well as the adequacy of management and staff.

SCHEDULING EXAMINATIONS

OTS must conduct a full-scope, on-site examination of every savings association once during each 12-month period. OTS may conduct a full-scope, on-site examination of a savings association once during each 18-month period if the association meets the conditions below. You may conduct a limited examination under certain conditions. (See the discussion of Comprehensive Limited Examinations at the end of this Handbook Section.)

A full-scope examination, according to the statute, means that you conduct an on-site examination and rate all CAMELS components. You may conduct certain examination procedures offsite. (See the

discussion of Off-Site Examination Procedures later in this section.) For comprehensive examination purposes, OTS conducts the Compliance review as part of a full-scope examination except as noted below under Intervening State Examinations.

OTS measures the 12-month and 18-month cycles from the “close date” of the last examination to the “start date” of the next examination. The “close date” is the date OTS transmits the Report of Examination (ROE) to the association.

12-month Cycle

By conducting examinations annually, you increase the chances of discovering problems and resolving them early. Regional offices may conduct full-scope, on-site examinations more often than prescribed by statute.

All de novo savings associations are subject to the 12-month examination cycle. The 12-month examination cycle should continue until management demonstrates its ability to operate an association in a safe and sound manner and satisfies all conditions imposed at the time of approval.

18-month Cycle

An 18-month examination cycle applies to insured savings associations with total assets of less than \$500 million that meet the following criteria in 12 CFR § 563.171:

- The most recent examination received a composite CAMELS rating of 1 or 2 and a Compliance rating of 1 or 2.
- The most recent examination received a Management component rating of 1 or 2.
- The association is well-capitalized as defined under Section 38 of the Federal Deposit Insurance Act (FDIA) and 12 CFR § 565.4.
- The association is not currently subject to a formal enforcement proceeding or order by the OTS or the FDIC.
- The association has not undergone a change in control during the 12-month period since completion of the last full-scope, on-site examination.

Revert to the 12-month examination cycle if any of the following triggering events occur:

- An enforcement action.
- An acquisition or change in control.
- A change in asset size to \$500 million or more.

- A downgrade in PCA rating.
- A downgrade to a 3 or worse in the CAMELS composite rating, the Compliance rating, or Management component rating.

If a triggering event occurs in any of the following time frames at an association that otherwise meets all of the criteria for an 18-month examination interval, you must conduct a full-scope examination within the appropriate interval:

If the triggering event occurs....	Then start the next exam...
Within 9 months of the “close” date of the prior full-scope exam	No later than 12 months from the close of the last full-scope exam.
Between 9 and 12 months since the close of the last full-scope exam	Within 90 days.
Twelve or more months since the close of the last full-scope exam	Within 90 days, but no later than 18 months from the close of the last full-scope exam.

Conversely, if an association under a 12-month examination interval becomes eligible for an expanded interval, the regional office may immediately expand the interval to 18 months.

Intervening State Examinations

Regional offices may accept full-scope, on-site examinations conducted by the regulatory authorities of state-chartered depository institutions on an alternating basis instead of an OTS examination, if such examinations meet the requirements and objectives of OTS’s examination strategy. OTS has certain agreements with some States to accept an intervening state examination. OTS accepts intervening state examinations for the following savings associations:

- Composite 1- or 2-rated associations.
- Stable and improving composite 3-rated associations if off-site monitoring between examinations confirms the last composite rating and OTS does not note any adverse trends from available information.

The length of time between examinations (regardless of whether OTS or the state conducts the examination) should not exceed 12 (or 18) months based on the statutory examination cycle requirements.

Generally, States do not perform a Compliance review as part of their examinations. OTS will conduct a separate Compliance review concurrently with intervening state examinations unless all of the following conditions exist:

- The previous Compliance rating was 1 or 2.

- Off-site monitoring shows no material change in the association's risk profile.
- The association corrected any previous compliance deficiencies.

EXAMINATION SCOPING AND PLANNING

Scoping an Examination

Scoping is an integral part of a risk-focused examination process, assisting examiners in targeting higher risk areas for review and in determining the appropriate examination procedures for that review. Scoping is the examination planning process that matches the risk profile of an association with the examination programs to enable a focused evaluation of association performance and appropriate rating assignments and conclusions. Scoping is the starting point of any examination and usually begins offsite.

Scoping is an integral part of a risk-focused examination process, assisting examiners in targeting higher risk areas for review and in determining the appropriate examination procedures for that review.

In brief, scoping enables you to understand the present risk profile of an association based on the following:

- A review and analysis of prior examination reports and prior track record of management.
- A review of agency monitoring records and PERK materials.
- Interviews with management.
- An assessment about changes in business operations, staffing, or external circumstances.

Based on this information, the EIC can then determine the appropriate areas for examiner review, the depth of review required, the examination procedures to use, and the examination personnel requirements. The EIC may modify an examination scope based on findings during the course of an examination.

Scoping consists of three stages:

- Reviewing pre-examination information.
- Conducting management interviews.
- Developing a preliminary risk assessment.

It is critical to the risk-focused examination process that you conduct these stages using the most effective off-site and on-site methods that regional resources permit.

Review Pre-examination Information

Generally, the EIC begins the scoping process offsite, before the start of the examination, leveraging off work performed by regional staff responsible for monitoring and updating the Electronic Continuing Examination Folder (ECEF) and Regulatory Profiles, prior exams and work papers, and relevant Preliminary Examination Response Kit (PERK) materials.

A sample of items to review offsite include the following:

Agency Information

- The ECEF, (including Quarterly Monitoring Reports (QMRs)), and, if applicable, the Regulatory Profile for the association.
- Results of regional off-site monitoring.
- OTS financial reports including the Thrift Financial Report (TFR) and the Uniform Thrift Performance Report (UTPR).
- Prior savings association, compliance, and holding company work papers and recommendations.
- The Matters Requiring Board Attention and corrective actions from the previous three or four ROEs.
- Correspondence covering significant matters involving the association that transpired between exams.
- Other correspondence and internal memoranda involving the association.
- Application information – conditions of approval and major applications filed.
- Documentation on supervisory and enforcement actions.
- Consumer complaints filed with OTS since the last examination.
- Suspicious Activity Reports and Currency Transaction Reports.
- CRA Wiz/ HMDA data.

PERK Information

- PERK documents completed by association management before the start of the examination for information related to the following:

- Changes in operations.
- Changes in technology risk, systems and controls.
- Board meetings.
- Internal and external audits.
- Compliance self-assessments.
- Responses and corrective actions to exams and audits.
- Significant changes in outsourcing or vendor relationships.

General Data

- Economic information about the association's market area(s).
- News articles, including Internet sources.

When you arrive onsite for the examination, review additional information that may affect the scope as soon as possible. Examples of scoping materials commonly reviewed onsite include the following:

- Relevant PERK documents not available before the examination begins.
- Board reports, board minutes, and management reports.
- Compliance reviews and/or compliance self-assessments.
- Internal audit reports.
- Internal Asset Review reports.
- Business plan.
- Operating budget.
- Any new contracts (for example: employment, information systems, leases, etc.).
- Any new or revised policies and procedures.
- Any new product or delivery channel specifications and associated marketing plans.

Conduct Management Interviews

In this stage of the scoping process, the EIC should conduct detailed interviews with the President/CEO, senior management, compliance officer, internal auditor, information security officer, general counsel, or other responsible staff, as applicable. You may conduct some of the initial discussions offsite. Further discussions will take place onsite at the start of the examination and continue (as needed) throughout the duration of the examination.

Use the interview process to confirm, modify, or supplement your preliminary judgment about the association's risk profile, changes in risk profile, management's response to those changes, and management's track record. As the EIC, you should communicate the results of the interviews to the examination team. Discussions should cover the operational impact of the following:

- Business strategic development and implementation.
- Modifications of organizational structure and lines of responsibility.
- Scope and effectiveness of employee training programs.
- Variations in financial condition or risk profile, and operating performance in comparison with the budget.
- Risk assessment matrix.
- Changes in operations that could affect ongoing safety and soundness and compliance performance.
- Actions taken to correct deficiencies identified in previous examinations, audits or compliance self-assessments.
- Management's perspective on economic conditions directly or indirectly affecting the association's financial performance and risk profile.
- Management's formal written compliance policy and self-assessment.
- Alteration of existing or development of new products.
- Significant internal or external audit findings and management's response to those findings.
- Management's adherence to, or departure from, formally established procedures or standard practices.
- Addition or removal of third-party service providers.
- Adoption, deployment, or modification of information technology platforms or tools.

You should adapt the interview process to address the particular circumstances at each association in response to findings from the pre-examination analysis. (Consult the Basic Matrix in [Appendix A](#) as an aid in identifying the regulatory obligations associated with particular products.) This process will assist you in refining the examination scope and in determining to what extent you examine certain operations, and particular laws and regulations.

Risk Assessment

Proper scoping (through document reviews, data analysis and management interviews) allows the EIC to formulate initial conclusions about the savings association's condition and risk profile, including the elements of the risk assessment: credit risk, operational risk, liquidity risk, price risk, interest rate risk, compliance risk, strategic risk, and reputation risk.

Using pre-examination information and management interviews allows the EIC to formulate an initial assessment of:

- Current financial condition.
- Management and the board's prior track record in managing risk and taking corrective action.
- Material changes in risk profile or operating strategy, and management's response to those changes.
- The association's internal controls, including technology risk controls, risk management, and compliance management systems.
- Responsiveness of management and the board in implementing corrective action to risk management and compliance management deficiencies since the previous examination, audits or reviews.
- Association's efforts to stay abreast of and train the board, management, and staff on safety and soundness and regulatory compliance developments.

Your assessment of these areas is a critical step for determining examination scope and the risk profile.

Selecting Examination Programs and Procedures

Based upon the EIC's initial assessment, you will determine the appropriate examination programs and procedures to use. You should consider all programs and questionnaires within the scope of the examination, including the risk-focused examination procedures. You may use a combination of procedures when performing an examination. You should perform a more detailed review of areas with greater risk or with deteriorating performance indicators and actively pursue any concerns or red flags that you uncover during the examination process. For example, if risk factors require you to go beyond risk-focused examination procedures, you may use any examination procedures included in the Examination Handbook, or conduct any other type of review determined appropriate to assess risk.

You may expand the depth of review of any given area as additional facts surface that necessitate a more comprehensive review.

Use programs and questionnaires as appropriate, but only to the extent necessary to address the scope and support the examination conclusions. Programs provide guidance necessary to support examination findings and ROE comments.

The EIC should use the Examination Scope Worksheet in [Appendix B](#) to indicate the examination programs to complete on an examination. In many circumstances, you will not need all or even a majority of the programs. Discuss the scope of the examination with the Field Manager (FM) or Assistant Regional Director (ARD) and document their concurrence on the worksheet. Before the start of the examination, the EIC will prepare a scoping memorandum, signed by the FM or ARD, that sets forth the initial risk assessment and exam programs. Retain a copy for the work papers.

For example, if your review of the policies, structure, administration, and results of the association's internal asset review program reveals that the program is sufficient and the results are accurate, you may place a greater reliance on the association's internal review. The risk that the association is not adequately reviewing and classifying its assets would be low, so more detailed examination procedures would generally not be necessary.

When using this risk-focused examination approach, use sound professional judgment to ensure that the depth of review is sufficient to accurately assess the association's condition, but is not excessive. For further information regarding the examination program and the three levels of review, refer to [Examination Handbook Section 010](#), Handbook and Program Use.

EXAMINATION MANAGEMENT

Effective management of the examination expedites and enhances the examination process by ensuring that the examination team meets the exam objectives and does so in an efficient manner. The level and sophistication of examination management methods and procedures will vary depending on the size, nature, and activities of the association.

The EIC may elect to use an Examination Management Checklist such as that found in [Appendix C](#). The checklist provides the time frames of tasks that need to take place before, during, and after each examination.

EIC Responsibilities

The EIC carries the primary responsibility for managing the examination. The EIC's responsibilities include:

- **Examination planning, organization, and implementation:** The EIC is responsible for scoping the examination, setting the examination objectives, communicating the examination

objectives to the examination team, and ensuring that the exam team meets the examination objectives.

- **Assignments and job monitoring:** The EIC must determine the expertise necessary to perform certain aspects of the examination and make assignments accordingly. The EIC is responsible for realizing the maximum efficiency from conducting coordinated safety and soundness and compliance reviews consistent with the examination's scope. Depending on the size of the job, the EIC may delegate certain management responsibilities to assistants for efficiency and to improve upon administrative and management skills of assistants.
 - Assign priorities to examination tasks and determine optimal use of comprehensive reviews across exam programs. Maximize efficiency by assigning one assistant to conduct or coordinate interrelated S&S and compliance programs to avoid duplication of effort whenever feasible.
 - Brief the examination team members on their respective assignments, including their participation in examination segments that will involve comprehensive reviews across exam programs. Provide them with the necessary information and resources to conduct their assignments efficiently.
 - Explain the preliminary risk assessment and scoping relevant to each assistant's assignment. Discuss the effect of information developed during the exam on the association risk profile, possible changes to the scope, opportunities for conducting comprehensive reviews across exam programs, and the ability to meet assignment deadlines throughout the examination. Adjust assignments as warranted by these considerations.
 - Consider completing the Examination Scope Worksheet in [Appendix B](#) when assigning tasks and budgeting examination hours. The EIC specifies the areas to review on the examination considering the scope. As needed, you may add any activities not included on the worksheet.
 - Monitor the progress of the examination to achieve examination objectives in a timely manner and to identify early adjustments to the scope, staffing, and completion date. The EIC should notify a supervisor as soon as adjustments to scope or other events may affect scheduling or the completion date. The supervisor might consider staff reassignment from other jobs, if necessary.
- **Prepare Report of Examination:** Incorporate program findings and conclusions, edit comments and finalize the ROE. Compile, index and file work papers. Properly record necessary exam data and regulatory violations in agency systems.
- **Serve as the primary communications link:** The EIC is the focal point for communications on significant matters. Assistants, association personnel, and regional office staff must all know how to communicate information and when to share information. During

the examination, it is important that only one responsible individual provide answers to significant items. The EIC should coordinate this in case questions arise.

- Examiners should communicate any significant changes to the scope and the reasons for them with examiners involved in the different examination areas. Share significant findings and conclusions to avoid duplicating efforts.
- When the FDIC or a state banking department participates in an examination, maintain close communication with FDIC regulatory authorities and appropriate state regulatory authorities. See the discussion of OTS/FDIC Joint Examinations Process later in this Handbook Section.
- Early in the examination, the EIC should discuss with the President/CEO, or with a designated association representative, some of the administrative aspects of the examination, including:
 - ✓ Time frames for receiving requested information.
 - ✓ The availability of the examiners to answer questions from the staff preparing requested information.
 - ✓ Names of key contact people.
 - ✓ Facilities and parking availability.
 - ✓ Hours for work.
 - ✓ Use of equipment.
 - ✓ The expected duration of the examination.
 - ✓ Any planned interruptions (these should be kept to a minimum).
 - ✓ Names of assisting examiners.
- The EIC should schedule regular meetings with the CEO to discuss the progress of the examination and to address any issues of concern. Conduct the examination efficiently to minimize undue disruption for the association. Convey any unresolved concerns management expresses about exam progress to a supervisor.
- The EIC should schedule an examination exit meeting with the association's senior management to discuss examination findings, the examiner's overall conclusions, and recommendations. Do not disclose proposed ratings during examination exit meetings. This is particularly important for examination reports that require review by the large bank unit. For all other cases, it is preferable to use the rating definition terminology in describing the

examination results, but not the actual ratings. See [Handbook Section 070](#), Ratings: Developing, Assigning, and Presenting.

- **Manage staff development and evaluation of assistants:** Assistants may need guidance, depending on their experience and ability. The EIC should encourage questions and ensure that someone is available to provide guidance. Depending on the size of the job, the EIC should be familiar with the work performed by the assistant(s) so that they can make fair and constructive evaluations of their work.
 - Whenever possible, assign assistants to program areas that they can complete, including report pages and comments, before leaving the assignment. This allows for efficiency and accountability and provides necessary on-the-job training.
 - Monitor assistants' performance throughout the examination to ensure that they are meeting objectives according to schedule and consistent with agency standards for quality work product. Early identification of work-related problems also allows the assistants the opportunity to correct mistakes and to immediately improve upon skills.
- **Ensure a cooperative and positive working environment:** Conduct examinations with as little disruption, conflict, and confusion as possible. A positive work environment fosters the productivity of the team members. Disagreements will occur at times, but avoid an antagonistic role. Allow for regular meetings with management to discuss findings and questions, and avoid monopolizing the time of the staff as much as possible. A professional and considerate approach usually results in cooperation from the association staff.

Off-Site Examination Procedures

OTS may conduct certain examination procedures offsite as proficiently as they conduct them onsite. The completion of off-site examination work complements the OTS strategy that seeks to maximize the efficient and effective use of agency resources. At the same time, it should minimize the burden on both the thrift industry and the examination staff. Some of the advantages of performing procedures offsite may include reduction in travel expenses and minimal disruption to thrift operations.

Regional directors or their designee should develop appropriate policies and procedures for performing examination procedures offsite. Examiner discretion and the ability to exercise judgment will remain a critical aspect of the process whereby the risks identified within each examination assignment will drive the level of off-site work that the examination team can effectively perform.

Savings Association Selection Criteria

You should determine whether to use off-site examination procedures based on certain criteria, including:

- The association's CAMELS and Compliance ratings.

- Prior history.
- Complexity of operations.
- Reliability of data.
- Capabilities of examination staff assigned.

This approach is flexible because there are no firm guidelines such as asset size, rating, or location to determine when you can or cannot use off-site examination analysis.

Open lines of communication with association personnel are essential at all examinations, but you may have to take extra steps to keep those lines open during off-site portions of the examination. Advise association management of the start and completion of off-site work.

On-Site Presence

You should periodically perform on-site examinations at the principal locations of the higher risk lines of business operated by a savings association. These lines of business may be in any kind of entity including operating subsidiaries, loan production offices, service corporations, etc.

An on-site presence allows you to:

- Directly observe and inspect the place of business, processes and procedures, original documents and records, and behavior of personnel.
- Conduct inquiries and interviews of staff members and management directly responsible for the information provided.

An on-site presence allows you to observe how the entity operates, the business culture, and the competence and adequacy of personnel.

Examination Data System/ Report of Examination

The Examination Data System/Report of Examination (EDS/ROE) should continue to reflect the actual start and completion dates of examination work performed. These dates should correspond with the dates disclosed in the cover page of the examination report.

Continuing Examination and General Administrative Documents

Retention of the following documents preserves examination continuity and reduces excessive requests for information during examinations.

Continuing Examination Documents

Retain the following documents with the electronic work papers:

- Copy of Charter and Bylaws
- Copy of Conditions for Insurance (in force)
- Summary of Leases
- Proxy Statement, if applicable
- Schedule of Branch Offices and LPOs

File in ECEF:

- Enforcement Documents
- Recent Correspondence
- News articles

Retain the following documents with the electronic PERK files:

- Management and Director Committees and Members (PERK01)
- Organizational Chart (PERK01)
- Officer Resumes (PERK01)
- Directors' and Officers' Home Addresses (PERK03)
- Holding Company/Affiliates Corporate Structure (PERK21)
- Internal Audit Program (PERK01)
- Stockholders' Schedule (PERK08)
- Approved Appraisers and Qualifications (PERK01)
- Copies of new or significant Policies

General Administrative Documents

File examination-related administrative information in the Administration folder of the electronic work papers. This might include any of the following items:

- Examination Scope Worksheet ([Appendix B](#)).
- Examination Management Checklist ([Appendix C](#)).
- Examination Scheduling, Scoping, and Management Program.
- Pre-Assignment Analysis.
- Exception Sheets ([Appendix D](#)).
- Ratings: Developing, Assigning, and Presenting Program.

You should use exception sheets to record all specific regulatory and policy violations that you do not specifically discuss in the ROE. Either the managing officer or the appropriate department head must provide a disposition for each problem noted and initial the exception sheet. Provide a copy of all exception sheets to the managing officer.

Examination Conclusion

The EIC is responsible for reviewing and compiling the examination findings, identifying matters that require Board attention or savings association action, and ensuring the Examination Conclusions and Comments page presents a concise and balanced portrayal of an association's condition and future prospects. The ratings should reflect the overall examination findings and conclusions.

Responsible OTS regional staff should update the ECEF and, if applicable, create or update the Regulatory Profile. In addition, regional staff should:

- Enter matters requiring board attention and corrective actions in the Follow-Up tab of the EDS/ROE System.
- Ensure that the association takes timely and appropriate corrective action for any problems found during the examination.
- Closely monitor (during and outside of the examination process) compliance with matters requiring board attention and other required corrective actions.
- Promptly identify and address any significant noncompliance or recurrence of identified problems.

OTS regional staff must send the report of examination to 1- and 2-rated savings associations within 30 days from completion of on-site examination activities; and to 3-, 4-, and 5-rated associations within 45 days from completion of on-site examination activities.

Refer to Examination [Handbook Section 070](#), Ratings: Developing, Assigning, and Presenting, for other appropriate examination closing procedures.

OTS/FDIC JOINT EXAMINATION PROCESS

Pursuant to the Information Sharing and Special Examination Agreement with the FDIC, OTS and FDIC regional staffs will meet regularly to review the examination schedule. The FDIC should indicate those examinations in which they desire joint participation. FDIC will perform all savings association examination activities on a joint basis unless compelling reasons dictate otherwise.

For joint examinations, the FDIC and OTS will jointly scope the examination at the EIC level or at the respective regional office level. Disagreements over scope should default to the broader alternative. When examinations of savings association affiliates are necessary, the EIC should decide how to conduct the examinations.

OTS will provide the FDIC with a copy of the ROE through an automated process when transmitting the ROE to the association.

OTS is responsible for specialty examinations such as Trust and Asset Management and Information Technology.

Nothing in the joint OTS/FDIC agreement alters the normal examination and supervisory cooperation with state authorities.

Report of Examination

Joint examinations represent a division of responsibilities among the joint staff; the OTS and FDIC each provide an EIC, who share responsibility for managing the examination and are responsible for resolving interagency differences during the examination process. EICs of both agencies will coordinate and communicate during the examination to ensure that they achieve examination objectives with a minimum of redundancy.

The FDIC's ROE will be for internal purposes only, although they provide a copy to the OTS regional office. If the FDIC Board authorizes an enforcement action, however, the FDIC would then transmit its examination report to the institution. As the OTS and FDIC regional staffs prepare the concurrent reports, they should attempt to resolve all significant differences of opinion concerning the thrift's overall condition and the enforcement or corrective action needed.

COMPREHENSIVE LIMITED EXAMINATIONS

You may conduct a comprehensive limited examination for the following associations:

- De novo or newly insured saving associations.
- Associations that have had a change in management, control, or operations.
- Associations under an enforcement agreement.
- Associations whose conditions undergo a significant change.

Use the comprehensive limited examination for reviews focusing on high-risk areas. Limited examinations do not satisfy the 12/18-month requirement.

You may conduct a comprehensive limited examination onsite or offsite. To determine if an association needs an on-site, limited examination focus on the following factors:

- Changes in business activity and strategy, such as a change in loan product lines, the investment portfolio, or the deposit structure.
- Action taken by management to correct items of concern noted at the most recent examination.
- Deterioration in asset quality indicators such as nonperforming assets.
- Circumstances indicating a deteriorating and deficient Compliance management program.
- Complex trust department operations or trust departments that have significant trust assets.
- Noncompliance with prior enforcement actions.
- Negative earnings, unfavorable earnings trends, or dependence on nonoperating income.
- The levels and composition of capital, as well as trends in capital formation and accumulation.
- An excessive rate of growth or a level of growth that exceeds capital levels or regulatory or supervisory directives.
- Changes in other key financial ratios and indicators.
- Other information such as the external audit report, news articles, supervisory correspondence, consumer complaints alleging discrimination, and information obtained from examinations of other savings associations.

You may also use the comprehensive limited examination to ensure the association's compliance with certain conditions. Depending on the circumstances of the limited examination, you may use specific ROE pages or a memo-style format to report your findings.

ELIGIBILITY EXAMINATIONS

An eligibility examination is the collection and analysis of critical information in conjunction with an application for a new thrift charter, charter conversion, or change of control. The examination supplements the customary review and analysis of the application and provides additional information for OTS decision-makers. Therefore, the examination scope should focus on novel or significant issues or risks that have a material impact on the success of the proposed activity or strategy. Examination procedures may include on- or off-site activities. Examiners will document results in a memorandum-style ROE.

OTS will perform an eligibility examination in cases where the application involves an existing company or line of business that is to be converted to, to be combined with, or will otherwise materially alter or affect the operations of a savings association. Converting entities that have been recently examined by a federal or state banking or trust regulator, and received satisfactory ratings (CAMELS 1 or 2, Trust 1 or 2, Compliance 1 or 2, and CRA Satisfactory or Outstanding) may not require an eligibility examination, unless the application raises a material issue not addressed by the existing ROE. These are the typical circumstances that warrant an eligibility exam, but the Regional office may identify other occasions that necessitate an eligibility exam.

The Regional office should determine the need for an eligibility examination as early in the application process as possible and promptly inform the applicant if it will be conducting an examination. Typically, the Regional office will make the determination and notify the applicant in the pre-filing meeting. The Regional office must schedule and perform the examination promptly and prior to an application being deemed complete so that the examination does not delay the application review process.

Planning and Scoping an Eligibility Examination

Planning and scoping eligibility examinations entails:

- Determining the work to perform.
- Arranging for qualified examiner resources.
- Coordinating with other applicable agencies.

When the Regional office establishes an exam date, promptly inform the applicant of the timing and objectives of the exam. When applicable, the OTS may conduct an eligibility examination jointly with an insurance-of-accounts examination performed by the FDIC, pursuant to a joint OTS/FDIC Examination Agreement.

The Regional office's scope-setting process must incorporate input from Regional applications staff, in addition to supervisory and examination staff. The applications staff should coordinate with other parties involved in the applications review process, including DC supervisory and legal staff, to ensure that supervision and examiners are aware of all pertinent issues and information needs. Generally, the applications staff input should be in the form of a brief, written summary of issues. As part of the scoping process, the EIC should also obtain and review, as applicable:

- The application itself, including the applicant's current business plan.
- Subsequent responses by the applicant to requests for additional information or any subsequent related filings (along with the related requests).
- Any information or comments provided by application processing staff.
- The applicant's two most recent examination reports (and work papers, if necessary) from other regulatory agencies (i.e., OCC, FDIC, FRB, NCUA, NASD, or state).

During the examination, supervision and examiners must communicate with regional applications staff to ensure that the exam scope addresses all material issues as they evolve.

Examination Procedures

You should tailor each eligibility examination to the particular risks posed by the applicant's business plan. The examination scope should dictate the examination procedures, that is, perform procedures necessary to assess significant or novel issues that are relevant to the application decision. When appropriate, you may reduce or modify procedures based upon the findings and conclusions of prior regulatory examination reports. An eligibility examination should address the following general disciplines, as applicable.

Safety and Soundness

You should generally select appropriate Level I examination procedures from the Examination Handbook to address the risks posed by the applicant and the circumstances. You should use judgment in reviewing specific risks unique to specialty businesses such as credit card operations or insurance companies.

Compliance/CRA

The Regional office should consider a compliance component in the eligibility examination, performed by a qualified compliance examiner. As with safety and soundness, limit compliance review procedures to the minimum necessary to identify critical compliance management risks. You may also review CRA performance as necessary to gather information to supplement CRA plans and representations provided in the application.

Information Technology

Depending on the applicant's size and complexity, the Regional office may determine that a review of the applicant's information technology (IT) is necessary. Specific issues that may require review include the following:

- Transactional web site processing and electronic banking.
- Complex local and wide area networks.
- Use of emerging or untested technology.
- Systems conversions or other major upcoming systems projects.
- Poor past performance in IT areas.

An experienced IT examiner should perform the review of this area.

Trust Operations

When the applicant proposes significant trust activities, a qualified trust examiner should participate in the eligibility examination to assess critical trust management and control functions. The trust examiner should generally perform selected Level I examination procedures from the Trust and Asset Management Handbook as appropriate to address the risks posed by the applicant and the circumstances. Generally, trust will only require review when trust operations are expected to form a substantial portion of the applicant's business. When trust operations are the only substantial activity of the applicant, it may not be necessary to include other examination segments.

ROE

Prepare a memorandum style ROE summarizing the examination scope and procedures, any novel or critical issues, management's response, and the significant findings for each area reviewed including CAMELS, compliance, CRA, IT, and trust, as applicable. The memorandum should clearly state the overall conclusions of the examination and issues that application processing staff and other OTS decision-makers should consider in their evaluation of the application.

REFERENCES

Code of Federal Regulations (12 CFR)

§ 563.171 Frequency of Examinations

Office of Thrift Supervision CEO Memos and Bulletins

CEO Memo 369 Risk Assessment Summary in the Thrift Report of Examination

TB 68b Appeals and Ombudsman Matters

Closely Related Handbook Sections

[Section 010](#) Handbook and Program Use

[Section 070](#) Ratings: Developing, Assigning, and Presenting

[Section 080](#) Enforcement Actions

Interagency Agreements

FFIEC Guidelines for Relying on State Examinations (June 27, 1995)

Information Sharing and Special Examination Agreement with the FDIC (January 25, 2002)

RESCINDED