ATTACHMENT

QUESTIONS AND ANSWERS

A. Data on Reallocation of Agency Examiners, FDIC Examiner Levels and Attrition, and Examination Frequency

1. Numbers of Agency Examiners Allocated:

(a) Please specify for the OCC, the FRB, the FHLBB, and the FDIC, the numbers of each agency's examiners now assigned or deployed to the FDIC's current insolvent thrift efforts. (b) When does the FDIC expect the peak period to end, and at that time, how will the numbers of examiners deployed to this effort be expected to change?

Response

a. As of March 16, 1989, 831 examiners were assigned or deployed to the FDIC's current insolvent thrift efforts. Of that total, 538 were from the FDIC, 97 were from the FRB, 144 were from the OCC and 52 were from the FHLBB. These totals do not include FDIC liquidation staff.

b. The FDIC anticipates that the peak period will be for a relatively short period of time, perhaps three-to-four months. After the peak period, agency personnel will be cut back to a minimum, with nominal participation by agencies other than the FDIC. It is estimated that the number of FDIC examiners being used will level off at around 200.

2. FDIC Examiner Levels, Attrition Rate, and Hiring:

a. Please set forth (in a table) FDIC examiner levels for year end 1986, 1987, and 1988, and as of February 28, 1989, indicating (a) for each point in time the total examiner levels, (b) the number of examiners which left the FDIC during the period covered, (c) the number which the FDIC hired during that period, and (d) the net increase in numbers of examiners at that point in time.

Response

FDIC Field Examiner Levels, Attrition Rate and Hiring

1987

12-31-86 Staff Level	Gains	Losses	12-31-87 Staff Level	Net Gain
1726	421	238	1909	183

1988

12-31-87 Staff Level	Gains	Losses	12-31-88 Staff Level	Net Gain
1909	362	288	1983	74

2-28-1989

12-31-88 Staff Level	Gains	Losses	Staff Level	Net Gain
1983	57	47	1993	10

Gains and losses are shown as gross figures with transfers to regional offices and the Washington Office being shown as losses.

b. (i) In 1988 what was the FDIC's attrition rate for (a) field examiners and (b) other staff within the Division of Bank Supervision (such as legal and supervisory staff)? (ii) What was the attrition rate for more experienced mid- to senior-level examiners? (The FDIC previously stated to the Commerce, Consumer, and Monetary Affairs ("CC&MA") Subcommittee that in 1987 attrition among experienced examiners totalled 1/3 of the total.)

Response

a. In 1988, FDIC's attrition rate for field examiners was 14.5% if internal transfers to the regional offices and Washington Office are considered. Net of those types of transfers, the attrition rate was 12.0%.

b. The Division of Bank Supervision's attrition rate for professional staff was 7.2% in 1988 and the clerical attrition rate was 22.9%, both computed net of internal transfers.

The attrition rate for more experienced examiners (Grades 12-15) was 6.10%, net of internal transfers. The 33% attrition rate noted in the question was the number of experienced examiners who left the FDIC as a percentage of total attrition. That percentage for 1988 was 21.2% of the 7.2%.

c. The FDIC also advised the Government Operations subcommittee that it could not assimilate more than 350 new trainees per year, because it wanted to maintain a ratio of 1 trainee per 5 experienced examiners. Has either the maximum "assimilation" number or the ratio changed, or are they the same? If either has changed, please explain the reasons. (Could you also explain when a trainee is no longer a trainee but considered experienced, the amount of time required.)

Response

For 1989, we have set a hiring goal of 507 new field examiners. That target was designed to enable us to achieve the field staffing goal of 2,200 field examiners by year-end even after allowing for a 12% attrition rate.

The FDIC has no official policy of maintaining a ratio of one trainee per five experienced examiners. The larger-than-normal hiring goal for 1988 will make the assimilation process more challenging than in previous years; however, we are confident that the new employees can be trained and placed in our workforce without significant difficulty. In addition to the formalized classroom training for new examiners, trainees also receive individual on-the-job training under the guidance of more senior field examiners. The latter group is now of sufficient size and experience to train a greater number of new employees. We are constantly reviewing our training programs to improve efficiency and effectiveness.

After satisfactory performance as a bank examiner trainee for a one-year period, an employee is promoted to Assistant Bank Examiner, Grade 7. The employee is then eligible for promotion to a Grade 9 assistant examiner in one additional year and to Grade 11 examiner status at the end of another twelve months of satisfactory performance. Thus, it is possible to become a commissioned examiner at some point after three years of satisfactory service.

3. Examination Frequency:

(a) At present, what is the actual frequencies of examinations for (i) non-problem (i.e. healthy) institutions (rated 1 and 2) and (ii) problem institutions (rated 3-5)? (b) What is the FDIC policy or guideline on the preferred frequency of FDIC examinations for (i) non-problem institutions and (ii) problem institutions?

Response

a. Our latest analysis of FDIC examination frequencies was done for the period September 30, 1987 to September 30, 1988. For that period our intervals averaged 35 months for 1- and 2-rated institutions, 18 months for 3-rated institutions and 16 months for 4- and 5-rated institutions. Over that period the FDIC increased the number of onsite examinations from 3,188 in the prior year to 3,829 and significantly improved examination frequency intervals. For example, the number of 1- and 2-rated banks without a regular examination in three years reduced from 1,168 to 272; 3-rated banks with last examinations two years or older declined from 167 to 65 and 4- and 5-rated banks with last examinations two years or older dropped from 72 to 12.

It is important to note that between regular examinations the FDIC receives and reviews a variety of information from several sources which helps us monitor the condition of the bank. All banks are subject to quarterly offsite monitoring reviews where our examiners investigate adverse or unusual trends and perform onsite visitations when necessary. Importantly, we also receive additional information from interim state examinations and visitations. If the bank is part of a holding company, we receive holding company examination reports from the Federal Reserve as well as examination reports from other Federal and state agencies on other banks in the holding company. In other words, even when the FDIC has not conducted an onsite examination for a longer than normal period, we are informed of the bank's condition and we are able to adjust examination priorities, based on the information received.

b. The FDIC policy for 1- and 2-rated institutions is to conduct an examination at least every 24 months. The examination interval can be extended up to 48 months when: (1) an interim state examination that meets FDIC needs has been performed, and (2) our offsite monitoring system confirms the rating. For 3-rated institutions the FDIC policy is to conduct an examination at least every 12 months. The examination interval for 3-rated banks can be extended up to 24 months when: (1) an interim state examination that meets FDIC needs has been performed, and (2) our offsite monitoring system confirms the rating. For 4- and 5-rated institutions the FDIC policy is to conduct its own examination at least every 12 months. A copy of our formal policy on examination frequencies is attached.

4. <u>Projections on FDIC examiners needed to backup the Bank Board System:</u>

If the Administration's proposal is enacted, with the FDIC becoming the deposit insurance agency for savings institutions, how many examiners does the FDIC project that it will require in a supporting role to the Home Loan Bank System (which will be the primary supervisor for these institutions)? Please describe any discussions with the Bank Board or with the Treasury Department on this.

Response

We believe the FHLB System, with 1,800 examiners, recently has made significant progress in improving its overall examination program. The number of additional FDIC examiners required will depend on our analysis of that program. Generally we intend to make full use of their work product and we intend, in most cases, to have our examiners accompany FHLB System examiners on their examinations to evaluate the examination program as well as provide information on the condition of solvent S&Ls. The number of independent FDIC examinations will be few. Our hiring projections will be based primarily on an analysis of the initial evaluations and on the number of S&Ls remaining once the insolvencies and the expected consolidations take place.

Without having done that analysis, our best estimate is that it will require 400 to 600 additional examiners to properly perform the back-up supervisory role envisioned by the President's Proposal. These numbers are preliminary estimates and could be higher or lower depending on the condition of the S&L industry and the level of confidence we develope in the FHLB System examination and supervision program.

We have had no formal discussions with the Bank Board or Treasury Department on this issue.

B. FDIC Examiner Compensation: Amounts, Deficiencies & Increases

1. Increases in Examiner Salaries: How much were examiner salaries increased in 1987, 1988, and 1989 (to present?)

Response

Examiner salaries increased in these years by the Government-wide annual salary adjustment and, in some locations, as warranted by the Corporation's regional pay differential program. The Government-wide salary adjustment for 1987 was 3%; for 1988 2%; and for 1989 4.1%. Regional pay differential rates are reviewed and adjusted annually as a percentage of base pay. The rates currently in effect for 31 locations nationwide range from a low of 0% to a high of nearly 20%--with the average covered employee receiving an 8% pay adjustment. In 1987, 27 locations were covered with a low of 1% to a high of nearly 19%. In 1988, 28 locations were covered with a low of 1% to a high of nearly 20%. In both years the average adjustment was 8%. In addition to the salary differential, the Corporation offers a benefit package which includes its own pre-tax or 401(k) savings plan separate from the Federal Thrift Savings Plan, free vision and dental care insurance, and privately sponsored health and life insurance programs. The FDIC also has established an Incentive Awards Program which recognizes and rewards employees whose performance or cost savings ideas contribute to the productivity and efficiency of the Corporation.

2. Examiner Salary Ranges:

Please provide data on the numbers of FDIC examiners in each of the following salary ranges at present (or, if present data is not readily available, then the most recent data): (a) less than $20,000, (b) $20,000 to $29,999, (c) $30,000 to $39,999, (d) $40,000 to $49,999, (e) $50,000 to $59,999, and (f) $60,000 plus.

Response

Base Salary Ranges*	Field Examiners	Regional & Wash. Prof. DBS Staff
Less than 20,000	244	1
$20,000 to 29,999	889**	2
$30,000 to 39,999	190	20
$40,000 to 49,999	443	26
$50,000 to 59,999	212	209
$60,000 plus	15	73

*Not including regional differentials

**This figure reflects the Corporation's aggressive recruitment of Bank Examiners (Trainee) over the last 4-1/2 years. Most of the individuals hired during that time are presently in the GG 7-11 salary range.

3. Past FDIC Surveys on Examiner Compensation:

Has the FDIC conducted or contracted for any past surveys on what salary increases were necessary to keep FDIC examiner salaries competitive with those in the private sector? If so, what did the surveys show? And how did the FDIC respond to them?

Response

The Corporation has not previously conducted any surveys to determine what, if any, salary increases were necessary to keep examiners salaries competitive with those in the private sector.

4. FDIC's Response to Pay Increase Recommendation and Need for FDIC Action:

a. Who is conducting the study which the FDIC has commissioned? (Please provide a copy of the contract or project guidelines.) What is the status of the study and have any tentative conclusions been reached?

b. Why was the report's recommendation for an immediate increase rejected outright (although there are FDIC funds for pay increases)?

c. On March 9, 1989, the Secretary of Transportation announced an "experimental pay allowance" under a 5 year demonstration project, providing for a "retention allowance" of up to 20 percent of basic salaries for 2,100 air traffic controllers, inspectors and technicians at 11 facilities in "difficult-to-staff" locations. (The details of this project are set forth in the March 10th Federal Register.) Please explain why the FDIC has not considered and then implemented a similar demonstration, as a solution to the drastic shortfall it is encountered.

Response

a. & b. The FDIC solicited competitive bids from outside consulting firms to review salary levels. A copy of the solicitation package is attached. Four bids were received by March 13, 1989. Those bids will be evaluated and a selection made by a committee being established by the Deputy to the Chairman. No immediate adjustment has been given because we believe we need more information as to amount and how to properly allocate any raises. We expect to grant at least some interim adjustments very soon. See also our response to Question 1, above.

c. The Corporation has had a Regional Pay Differential program in place since December 23, 1984. The differential rates are reviewed and adjusted annually as a percentage of base pay. We will look at the D.O.T. program for any characteristics that may work for the FDIC.

C. Other Alternatives To Address Inadequate Numbers of FDIC Examiners

1. Use of Outside Organizations:

(a) Has the FDIC actively explored contracts with outside accounting firms, investigative firms, or other kinds of firms or consultants, to assist the FDIC in managing or closing insolvent thrift institutions, to take some pressure off its own examination resources, and, if not, why not? (b) if these alternatives have been explored, but rejected, what are the impediments making such alternatives not feasible?

Response

a. To date, the FDIC has not actively explored the use of outside firms or consultants to assist in its current thrift efforts. However, we intend to fully review the options in this area.

b. Not applicable.

2. Better Utilization of State Resources:

a. For how many states is the FDIC willing to accept a state banking agency examination in lieu of a FDIC examination, fully utilizing the State report? For how many States is the FDIC not willing to so accept?

Response

The FDIC accepts State banking department examinations, in lieu of an FDIC examination, from 32 states. We review all state examination reports, however, on an individual basis. In 6 other states, the FDIC accepts some of the examination reports and enters financial information from those reports into the FDIC data base.

Even in the 12 states where the FDIC is unwilling to accept examination reports, the state examinations are not ignored. The reports are reviewed for informational and follow-up purposes by Regional Office staff and field office supervisors and thus play a role in establishing priorities in scheduling FDIC examinations.

b. (i) Since the Government Operation's Committee's October 1988 report, has the FDIC specially (a) conferred with each State banking department, (b) reappraised its use of State examination reports, and (c) given direction to FDIC regional directors to better utilize those reports done in a competent and thorough fashion by State regulators? (Please describe any such actions.) (ii) For each of these recommended actions not taken by the FDIC, specify why not? (iii) And is the FDIC now prepared to reconsider and take specific steps, including increased consultation, coordination, data sharing, joint-examinations, or other actions or the formulation of new regional agreements).

The FDIC has conferred specifically with all 50 State banking departments since October 1988. In addition, the FDIC has also conferred with banking authorities from Puerto Rico, Guam, American Samoa and The Federated States of Micronesia. The use of State bank examination reports is reappraised on a continual basis with a clear bias towards accepting and relying on as much information as possible without lowering FDIC standards for accurate information. During a recent management conference between Regional Directors and Division of Bank Supervision senior management the relationships and interactions with State authorities were fully discussed with the importance of getting as much cooperation and help from the states as possible being emphasized.

As mentioned above, examination reports from 32 states are fully accepted in lieu of FDIC examinations. In all states, coordination of scheduling takes place not only at the Regional Office level but also between FDIC field office supervisors and their state counterparts. Regional Directors are instructed by an active directive to consult, coordinate examination scheduling, share data, conduct joint and/or concurrent examinations and form formal or informal regional agreements to the fullest extent possible.

The FDIC takes active measures to maintain good relations with state authorities and improve the quality of state examination staffs. The FDIC makes its data base and early warning system available to the states, we provide examination forms for those states using the FDIC examination report, and we provide training for state examiners at the FDIC's training facility.

3. <u>Expanded Role of Independent Audits</u>:

   a. Does the FDIC have statutory authority to order independent audits (with possible limited audits for very small institutions) for all state nonmember banks supervised by it? Does it have such authority to order independent audits for all FDIC-insured banks, irrespective of which agency is the primary regulator?

   b. If the FDIC does have such authority for state nonmember banks, is it prepared to revisit this issue to order independent audits for these banks? If not, why not, given the infrequency of FDIC examinations?

   c. If such authority (for both categories of banks) is missing, should the Congress confer on the FDIC such authority in the legislation under consideration?

Response

a. The FDIC has the express authority to require insured State nonmember banks that are registered under the Securities Exchange Act of 1934 to have periodic independent audits. We also have authority, where necessary, to require external audits as a condition to granting federal deposit insurance. In addition, we have ad-hoc authority to include provisions requiring external audits in individual cease-and-desist orders.

There are no specific provisions in the Federal Deposit Insurance Act authorizing the FDIC to require insured State nonmember banks to employ independent auditors to conduct external audits. Thus, we have no express authority to require independent audits of non-registered State nonmember banks through a regulation of general applicability. However, we believe that we have implied authority to require external audits generally. Nevertheless, we have not chosen to invoke this authority, nor has it been tested; therefore, our authority in this area remains unclear at this time. Our authority to require external audits of all FDIC-insured banks, regardless of their primary Federal regulator, also is unclear.

b. The FDIC continues to agree in principle with the desirability of independent audits for all insured banks, with perhaps some special allowance or exemption for very small banks. In keeping with this view, the FDIC Board of Directors approved the attached Statement of Policy Regarding Independent External Auditing

Programs of State Nonmember Banks on November 16, 1988. This policy strongly encourages all insured state nonmember banks under our supervision to adopt an annual independent external auditing program. Although it lacks the force of law, we are confident that over time the flexible application of the policy statement by our examiners and regional office staff will achieve positive results in terms of a much-expanded use of external audit programs by insured nonmember banks under our supervision.

Furthermore, the banking agencies have added an item to the Reports of Condition and Income that requires each bank to indicate in the March quarterly report the level of auditing work performed by independent external auditors during the prior year. This new item should enable us to see what changes result in external auditing programs of banks over the next several years. Thus, we would not be inclined to revisit the issue of requiring independent audits for banks until sufficient time has elapsed to assess the effectiveness of the new policy. We also continue to believe it would be unfair to have a regulation that did not apply equally to all categories of banks.

4. <u>Other Alternatives:</u> What other alternatives exist, in the FDIC's view, which could respond to the serious shortage of experienced FDIC examiners? Please describe them and indicate how the FDIC intends to utilize such alternatives, if such is feasible.

<u>Response</u>

As indicated previously, the FDIC hopes to attain a goal of 2,200 field examiners by year-end 1989. Further increases in subsequent years can be expected. Our examination efficiency is consistently improving and our examination staff has increased dramatically -- from a low of 1,389 in 1984 to 1,993 at the present time. Increased efficiency, improved methodology -- including maximum use of automation -- and periodic review of priorities will be a continuous part of our program.

The FDIC is continually alert to alternatives for addressing our increasing workload. In the past we have initiated programs for hiring loan analysts and have contracted with CPA firms to assist in bank examinations, but with mixed results. The CPA program, for example, was dropped because of the high cost and insufficient number of available senior level CPAs to participate in the program. Further, the strict conflict-of-interest and confidentiality standards required for FDIC examiners and which had to be imposed on CPA personnel created an unacceptable burden. Also, bankers were concerned over CPA employees having access to their records when the same CPA firm may be providing consulting services to their competitors. These problems severely limited the attractiveness of the program.

While outside contractors remain an alternative that the FDIC will continue to explore as necessary, we have had better success handling workload increases by using expedited examination procedures such as visitations and targeted examinations and through better utilization of state banking department resources and expanding our own staff.

1. Creation of a wrongful discharge remedy:

   a. Does the FDIC have any information (including anecdotes) concerning bank employees or officers who provided information to the FDIC (or other agencies), including the frequency of such disclosures and also any discrimination which such officers/employees have suffered? (b) Are there any problems or concerns which need to be taken into account in considering this proposal?

Response

The proposed legislation would provide a cause of action for a person who has been wrongfully discharged by a financial institution for providing information about a possible violation of law to a regulatory agency or to the Department of Justice. We do not have any reliable means of quantifying the nature and extent of disclosures covered by this section nor of any recriminations that might have been suffered by those coming forward with the information. Bank supervisors in our regional offices report that, in their experience, situations of the kind contemplated in the proposed legislation are not numerous but have occurred often enough for them to recognize a need for the proposed legislation.

The following case is illustrative of many others: While copying bank records to be given to the bank's auditors, a bank employee noticed differences in the financial information being prepared by the chief executive officer. She made copies and provided them to the FDIC. She was immediately dismissed by the bank and later brought action against the bank for wrongful dismissal.

The information she provided the FDIC led to a full examination of the bank and an investigation into the activities of senior management. A temporary cease and desist order was issued; the executive was formally removed and ordered to pay a civil money penalty of $250,000. The bank has since been merged with FDIC assistance. For taking a courageous step and informing the FDIC, the bank employee lost her job and had to pay legal expenses to get unemployment compensation because the bank contested her right to receive benefits. Because the bank has merged, the status of her claim is uncertain.

Notwithstanding the obvious protection afforded an employee who steps forward courageously to inform authorities of violations of law, the mere fact that the protection is available, if properly publicized to bank employees, should encourage them to volunteer information to regulators that might lead to earlier detection of violations and might actually deter bank insiders from attempting the violations in the first place.

2. Establishment of a reward or bounty provision:

   a. Does the FDIC have any information indicating that such a reward would bring forth information which could prevent unsafe and unsound practices or other violations in financial institutions? (b) Are there any problems or concerns (including potential administrative difficulties), which need to be taken into account in considering this proposal? (c) What would be the source for the funds to pay the rewards? Does this need to be addressed in the legislation?

Response

We have no information on which we could conclude positively that a reward or bounty provision would elicit enough reliable information to improve the safety and soundness of financial institutions. We believe that some people who might not do so under present circumstances would be induced by the prospects of receiving a reward or bounty to bring forth information. As with any new provision, administrative problems are likely but should diminish over time. The payment of something of value to a potential witness in either a civil or criminal proceeding, however, might prove troublesome in that the person's motive for providing the information could be questioned.

We believe the funds used to pay the reward should come from the penalty that is collected and that the reward should be deducted from the penalty before the funds are paid to the U.S. Treasury.