



Banker Feedback on the Examination Process

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TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *Banker Outreach Program on the Safety and Soundness Examination Process*

On March 24, 1995, the FDIC announced a one-year informal outreach program designed to solicit bankers' opinions and suggestions on how to improve the quality and efficiency of the safety and soundness examination process. This effort is aimed at detecting and changing aspects of the FDIC examination process that may be burdensome or inefficient.

Most of the approximately 3,500 FDIC-supervised commercial banks and savings banks nationwide that are expected to undergo a safety and soundness examination within the 12-month period are being sent a three-page questionnaire along with their final examination report. The questionnaire asks bankers opinions about such matters as: the appropriateness and thoroughness of the examination procedures; the quality and professionalism of the FDIC examination team; the usefulness of written and oral comments in the examination report; and the size of the examination team and preference for having other specialty examinations done separately or at the same time as the safety and soundness examination.

Of the 917 questionnaires sent during the March-July period, 455 or 49.6 percent were returned by July 31, 1995. Of the 455 responses, 330 bankers or 73 percent identified themselves and 209 provided written comments. While the voluntary and anonymous nature of the responses means that the results do not constitute a scientifically valid survey, the FDIC has found them to be enlightening and constructive. In particular, the 455 respondents felt as follows:

**Examination Process**

91% of the respondents agreed that pre-examination preparations and requests for information made by examiners enabled the examination to be conducted in the most efficient manner possible.

95% of the respondents agreed that examiners focused on the appropriate risk areas.

95% of the respondents agreed that examiners maintained adequate communication with bank management throughout the examination.

96% agreed that examiners disclosed and discussed material supervisory concerns and recommendations to senior bank officials during the examination.

74% of the respondents agreed that the examination length was appropriate.

**Examination Team**

97% of the respondents agreed that examiners acted professionally and responsively.

86% of the respondents agreed that the examination team was the appropriate size.

90% of the respondents agreed that examiners created as little disruption as possible to daily operations.

93% of the respondents agreed that examiners appeared to be informed of banking issues and adequately trained.

93% of the respondents agreed that oral examination findings and recommendations were logically and clearly disseminated to senior bank officials.

75% of the respondents agreed that correspondence from the regional office was clear and concise. However, 24% of the respondents gave no opinion on this statement.

### **Examination Report**

93% of the respondents agreed that the examination report is in a logical and readable format.

91% of the respondents agreed that the examination report objectively documents the institution's overall condition, risks and prospects.

93% of the respondents agreed that the examination report accurately reflects material issues and recommendations.

93% of the respondents agreed that the examination report is consistent with the preliminary findings disclosed to senior bank management at the end of the examination.

90% of the respondents agreed that the examination report documents and fairly represents management's response to report findings.

93% of the respondents agreed that the examination report serves as an information source for senior bank management.

### **Other Examination Issues**

77% of the respondents do not prefer a larger examination team in order to shorten examination time.

65% of the respondents prefer having the compliance examination done at the same time as the safety and soundness examination.

81% and 84% of the respondents, respectively, prefer having the in-house automation facilities and trust department done at the same time as the safety and soundness examination.

The physical limitation of space and support personnel were the primary reasons cited by those respondents preferring a smaller examination team.

Overall, the FDIC is encouraged by the positive responses received and helpful comments submitted. It is evident that many bankers took advantage of this opportunity to tell the FDIC what was on their minds. Nevertheless, four areas where those who responded thought that the FDIC could improve were:

- to provide banks with more advance notice of upcoming examinations;
- to be more sensitive to the number of examiners assigned to conduct examinations of small, community-type banks with limited facilities; to the extent practicable, to perform more pre-examination functions outside of the bank; and
- to shorten the length of time it takes to complete a safety and soundness examination.

In response to the comments, the FDIC's Division of Supervision (DOS) is taking the following actions:

- Henceforth, with certain exceptions, examiners are to provide bankers with a minimum two-week prior notice of an upcoming examination. This should provide bankers with the time needed to prepare for an examination and to respond to examiners' pre-examination requests for information.

- DOS is conducting a complete review of its examination procedures for the purpose of identifying those examination functions which can be performed outside of the bank. In this way, the on-sight examination hours and burden on bankers should be reduced accordingly.
- DOS has established a goal to reduce total examination hours.
- DOS field office supervisors have been instructed to carefully review their procedures for scheduling examinations and for assigning examiners. The goal is to assign an examination team that is no bigger than necessary to do the job in a compact, concerted manner and to minimize, to the extent practicable, any disruption to the bank.

We encourage those bankers who receive a safety and soundness examination in the coming months to complete the examination questionnaire that will accompany the examination report. We ask, however, that bankers complete only one questionnaire per bank in order that the responses accurately reflect the concerns raised. As the FDIC receives additional feedback and identifies additional trends and actions that can be taken to improve the examination process, you will be advised.

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Distribution: FDIC-Supervised Banks (Commercial and Savings)