

Examination Bulletin: FCA 2007-1

Subject: Communicating Examination Expectations

PURPOSE

This bulletin provides guidance on the application of “best practices”, “recommended actions”, and “required actions” in communications with System institutions. It ensures that examiners and institution management and boards have a consistent understanding of expectations when responding to examination findings.

INTRODUCTION

Examination activities often result in findings which warrant the attention of boards and management. These findings range from regulatory violations and unsafe/unsound practices which require immediate action by the institution board, to general observations that the institution management should consider as part of their ongoing operations. By segregating the findings according to severity, institutions can prioritize their actions to ensure appropriate responsiveness to the examination.

Consistent communication of examination findings with institution management and boards of directors is important to ensure the effectiveness of OE's oversight activities. Recently, OE instituted different examination and communication processes, including the national examination activities. One aspect of this national examination approach is the identification of “best practices.” OE is communicating “best practices” in the national reports along with “recommended” and “required” actions. FCA believes these three levels of examination findings can result in clearer communications of Agency expectations, which, in the long run, should allow the FCA and System institutions to operate more effectively and efficiently.

EXAMINATION GUIDANCE

The following guidance is provided to clarify how examiners should apply “best practices”, “recommended actions”, and “required actions” when communicating with System institutions.

What is expected for Best Practices?

- An institution should review and consider best practices and determine applicability to its operation. Some documentation of this determination would be reasonable as part of the business planning process, the Audit Committee's risk assessment process, or board meeting minutes.
- An institution should consider a cost benefit analysis when evaluating whether to implement best practices.
- OE encourages the implementation of best practices when they apply to an institution, but does not expect that all best practices must be implemented.
- Ultimately, each institution should decide which best practices are appropriate for its operation.

What is expected for Recommended Actions?

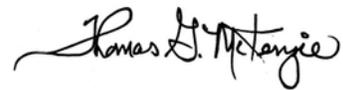
- Recommended actions are identified to address problems that may not yet have affected the safety and soundness of the institution, but if not addressed by the board and management, could impair safety and soundness at a later date.

- Recommended actions may also be used to address operational deficiencies that could lead to violations of law or regulation if adequate controls are not established by the board or management.
- Formal corrective action plans or responses to recommended actions are not expected, but the board and management should consider the recommendations and document their decision.
- Examiners will follow-up with management to determine the status of the recommended actions.

What is expected for Required Actions?

- Required actions are necessary to address material issues that pertain to the safety and soundness of the institution or matters where violations of laws and regulations must be corrected.
- Required actions will be specifically identified in OE's communications and most likely communicated in letters or reports of examination sent to individual institutions.
- Formal corrective action plans are expected within a stated timeframe.
- Examiners will follow-up with management to determine the progress made in addressing the required actions.

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Date



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