

**First Quarter Fiscal Year (FY) 2011 Summary Report
(October 1 – December 31, 2010)**

**Office of Inspector General's (OIG) Survey of Farm Credit System (FCS) Institutions
Regarding the Agency's Examination Function**

Introduction

Based on the interface FCS institutions had with the Agency's examination function during the period October 1 – December 31, 2010, the Office of Examination (OE) identified 14 FCS institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 14 institutions on February 2, 2011. Of the 14 institutions surveyed, 12 submitted completed surveys. If the nonresponding institutions subsequently send a completed survey, they will be included in the next quarterly report.

The OIG will continue to provide an email report to you based on each FY quarter-end, i.e., December 31, March 31, June 30, and September 30, so that you may timely take whatever action you deem necessary to address the responses. The fourth quarter report as of September 30 will continue to include FY summary data.

The survey asks respondents to rate the nine survey statements from "1" (Completely Agree) to "5" (Completely Disagree). The rating options are as follows:

Completely Agree	1
Agree	2
Neither Agree nor Disagree	3
Disagree	4
Completely Disagree	5

There is also an available response of "6" (Does Not Apply) for each survey statement.

Narrative responses are provided verbatim, except that any identifying information has been removed and any grammatical or punctuation errors may have been corrected. Any narrative in "brackets" is explanatory information provided by the OIG.

Survey Results – First Quarter FY 2011

The average numerical responses to survey statements 1-9 ranged from 1.4 to 2.1.

The average response to all survey statements was 1.7.

The majority of narrative comments to survey statements 1-9 were positive. However, there were three ratings of "4" (Somewhat Disagree), one each with respect to survey statements 2, 6, and 8. Only one institution provided a corresponding comment. See the first bullet under survey statement 2 for this comment.

In this first quarter, half of the comments to survey statements 1-9 were positive and half were negative or particularly interesting. (All negative or interesting comments are color coded in red.)

Survey item 10a asks for feedback on the most beneficial aspects of the examination process. Consistent with prior quarters' responses to this survey item, many very positive comments were provided about the examiners and the examination process.

Survey item 10b asks for feedback on the least beneficial aspects of the examination process. Five of the eight comments were negative. Three were positive.

Survey item 11 asks for any additional comments. Only the first bullet was negative and should be read in context with the first bullet in 10b.

Responses to Survey Statements 1-9

Examination Process

Survey Statement 1: The scope and frequency of examination activities focused on areas of risk to the institution and were appropriate for the size, complexity, and risk profile of the institution.

Average Response: 1.8

Comments:

- Am new to committee chairmanship and do not yet have broader experience outside the institution for the needed perspective.
- Thoroughly appropriate for the size, complexity, and risk profile of the institution.
- Adequate and appropriate for this institution.
- Actually the amount of time and resources were probably more than needed for an institution with \$80,000,000 in assets.
- Examination was not really risk-based, it was focused on reviewing policy, procedures, and practice in accordance with the numerous IM's, Bookletters and Loan Portfolio Management Module that had been issued in the past 2 years.

Survey Statement 2: The examination process helped the institution understand its authorities and comply with laws and regulations.

Average Response: 1.9

Comments:

- The examination process did not provide any insight into compliance with laws or regulations that were not already known and understood.
- Always good to check our understanding of the regulations and how we are complying with it and changes to the regulations.

Survey Statement 3: The results and recommendations of the examination process covered matters of safety and soundness, and compliance with laws and regulations.

Average Response: 1.5

Comments:

- Exam focused appropriately on compliance. Excellent and very appropriate concentration on safety and soundness especially as related to individual credit exposure.

Survey Statement 4: Examiners were knowledgeable and appropriately applied laws, regulations, and other regulatory criteria.

Average Response: 1.9

Comments:

- The variance in experience and tenure resulted in some more knowledgeable than others.
- It appeared so but I cannot judge the extent of their knowledge except to say that it is beyond my own.
- Knowledgeable and easy to work with in all areas of the examination.
- Tenure of examination team is improving which aids in the process. There is still a gap between interpreting and enforcing regulations versus having to comply and carry them out.
- The examination requires the institution to change its commodity concentrations policies from policies based on permanent capital and percent of portfolio to a risk funds index while the agency's own guidance memorandum does not require that.

Communications and Professionalism

Survey Statement 5: Communications between the Office of Examination staff and the institution were clear, accurate, and timely.

Average Response: 1.4

Comments:

- Examination team communicated well with institution staff.
- Verbal communication has been exceptional. The written examination is far too slow. (Over three months from the examination.)

Survey Statement 6: Examination communications included the appropriate amount and type of information to help the board and audit committee fulfill their oversight responsibilities.

Average Response: 1.7

Comments:

- The report of examination provided good information and was helpful to the board/audit committee in fulfilling their oversight and governance responsibilities.

Survey Statement 7: The examiners were organized and efficiently conducted examination activities.

Average Response: 1.5

Comments:

- Did not observe this (only see examiners when they issue their report to the Board in person).
- Onsite examination began on XX and our exit conference was held on XX [6 months]. The process involved intermittent contact over several months. This is difficult for examiners and institution staff to remain focused on completion of the exam. We were reviewed to the new LPM prior to having the opportunity to prepare for the questions. And, it was done by phone calls over a period of weeks. Staff was apologetic for the method, but we are aware that another institution was sent a questionnaire in advance giving them time to gather the information to more effectively answer the questions. This would have been very helpful in making the process more efficient.

Survey Statement 8: Examiners fairly considered the views and responses of the board and management in formulating conclusions and recommendations.

Average Response: 1.8

Comments:

- Examiners have been more aggressive on loan classifications, perhaps partly due to environmental forces, but I am not in position to adjudicate.

Survey Statement 9: FCS-wide examination guidance from the Office of Examination (e.g., examination bulletins, informational memoranda, etc.) was timely, proactive and helpful.

Average Response: 2.1

Comments:

- There is a lot of guidance being issued requiring institutions to document that they are actually complying with policy, procedure and regs. This is

time consuming and mostly resulted in us committing to paper that which we have already been doing. The guidance is helpful, but having to confirm compliance with each is time consuming.

Responses to Additional Survey Items 10a, 10b, and 11

Survey Item 10a: What aspects of the examination process did you find **most** beneficial?

- The open communication with the Examiner in Charge is most helpful. It is good to know what they are looking at and also have a good dialog of findings and observations once the examination is completed.
- Examiner was very professional and an excellent communicator. He explained FCA's views very well.
- They appear as links in a chain and I'm not sure which links were strongest nor weakest.
- Conversations and information from this year's on site activities provided good information related to emerging issues, best practices and stress testing expectations.
- The give and take discussions. It was a lot less one sided preaching than some sessions I've been in. Open dialogue.
- The examination process and discussions on individual accounts were informative.
- Policy, procedure, credit administration, credit quality.
- More experienced staff who listened to institution point of view.
- I can't say that the exam is supposed to be helpful to management. Rather it is supposed to be descriptive. It was accurate. The on-site visit was most beneficial.
- From the Board's perspective, the exit interview with Examiners. There was no material interim communication during the review process with the Board.

Survey Item 10b: What aspects of the examination process did you find **least** beneficial?

- Lack of cost information—see question 11 [see first bullet]. While Question 13 [do you want the OIG to call] is answered "no" it would be helpful to receive a letter or email with cost information as noted in Question 11. Thank you.
- I (CEO) spent a disproportionate amount of time with one examiner and it seemed redundant.
- No specific aspect was not beneficial. Information and recommendations presented were helpful and relevant to the size and scope of the institution.
- I thought it was all pretty useful. Tendency to create more cost by high level of redundant reporting.
- The examination in general was beneficial and we did not think that any area was not beneficial.
- High costs associated with the review – and our FCA duties.
- Lengthy process.

- The written letter. Everything was already discussed verbally several weeks ahead of the letter. Many items had already been addressed by the time the letter was received.

Survey Item 11: Please provide any additional comments about the examination process and related communications.

- In evaluating the service it would be helpful to have a cost breakdown: (1) institution-specific costs (variable), and (ii) a breakdown of how system-wide joint costs are apportioned to this institution.
- This was the most positive and well managed examination experience we have had in several years. The focus on credit was a welcome experience.
- We feel the examination of our institution was constructive and beneficial to the Board and Management.
- It is what it is! After 40 years some seems redundant, but in all examiner-in-charge did a good job. I am open to contact but do not feel the need.
- Examiner was very helpful and I rely on his expertise.
- The institution was going through a difficult succession period, that due to the size of the institution was more intense and required exceptional board members involvement. This, I believe, was not appropriately contextualized in the ROE findings.