First Quarter Fiscal Year (FY) 2012 Summary Report
(October 1 – December 31, 2011)

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, 2011, the Office of Examination (OE) identified 12 FCS institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 12 institutions on January 30. Of the 12 institutions surveyed, 11 submitted completed surveys. If the nonresponding institution subsequently sends a completed survey, it will be included in the next quarterly report.

Three responses to the survey issued for the fourth quarter of FY 2011 were received subsequent to the fourth quarter report and are included in this report. As a result, this report covers 14 responding institutions.

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 eight 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 based on conversations with institution management.

Survey Results – First Quarter FY 2012

Average numerical responses to survey statements 1 - 8 ranged from 1.7 to 2.1.

The average response for all survey statements was 1.9.

March 27, 2012
No numerical ratings worse than “3” (Neither Agree nor Disagree) were recorded.

In this quarter, there were more positive than negative narrative comments to survey statements 1-8. (Negative comments of any degree are color coded in maroon.)

Survey item 9 asks for feedback on the most beneficial aspect 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 10 asks for feedback on the least beneficial aspect of the examination process. While most were negative, as would be expected, several comments provide a perspective that should prove constructive.

Survey item 11 asks for any additional comments from the Board as a whole. This is a new survey item inserted at the request of OE. It elicited a number of thoughtful responses from full Boards, which was the objective of the question.

Responses to Survey Statements 1–8

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<tr>
<th>Survey Statement 1: The scope of examination activities was focused on areas of risk to the institution and appropriate for the size, complexity, and risk profile of the institution.</th>
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<tbody>
<tr>
<td>Average Response: 1.9</td>
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<tr>
<td>Comments:</td>
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<tr>
<td>• Given the long-term nature of most of our transactions, looking at the same loan assets every year is time consuming and a challenge with our institution’s customers.</td>
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<tr>
<td>• The size and complexity of an institution with $450 million of assets is no different than an institution with $500 million of assets. Our examiners referenced total asset thresholds numerous times as a reason for findings, observations and recommendations. We felt this was inappropriate. Sound risk management practices and FCA’s expectations should not change the day after a total asset threshold is crossed.</td>
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<td>• Exam team included several new trainees. Due to their inexperience we spent a lot of time looking at very low risk loans. Not sure all the suggested stress testing is necessary for a small institution in very good financial position with an excellent loan portfolio.</td>
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<tr>
<td>• We believe the OE and RSD (Risk Supervision Division) officials and staff could not have done a better job at targeting and identifying areas within our organization in which focus should be placed. PREVIOUS COMMENTS FROM OUR FY 2010 THIRD QUARTER SURVEY: The institution is operating under a letter of special supervision as a consequence of the findings reported in an examination letter. The institution just received its statutory examination report, and just concluded an interim activity examination. Throughout each of the various examinations, the focus has been upon safety and soundness and regulatory compliance. The reports that have been issued clearly and concisely conveyed the results of all findings in those areas, and the accompanying recommendations were</td>
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appropriate, well-reasoned, and fully supportable. In both the various written reports and personal interactions, examination staff displayed absolute professionalism and competence. The institution fully acknowledges the pivotal role played by FCA in illuminating the internal weaknesses which gave rise to the adverse conditions, and for the supportive environment it has adopted to facilitate the corrective measures necessary to repair the damage.

- Examiners are not given enough flexibility to adjust the review base on different business practices. They seem to be forced to a check the box approach.
- The 2011 examination focused on some risk areas associated with our institution but also included follow-up on actions required post-merger.

**Survey Statement 2:** Examiners appropriately applied laws, regulations, and other regulatory criteria to examination findings and conclusions.

**Average Response:** 1.8

**Comments:**
- While the examination process is effective and necessary, we believe we understand and are knowledgeable about laws and regulations.
- We were fully supportive of the findings of the agency, and in full agreement with the basis thereof.

**Survey Statement 3:** The recommendations, required actions, and any supervisory agreement with FCA assisted the board and management in addressing the risks of the institution.

**Average Response:** 2.1

**Comments:**
- No significant recommendations were provided or required.
- Recommendations were mostly in the area of stress testing. Institution is still considering the cost/benefit ratio of additional stress testing in the current positive environment, but acknowledges some is necessary to prepare for inevitable downturns in the ag economy in the future.
- The institution is under special supervision. The interaction with RSD staff was outstanding. They clearly told us what was needed to be done, and did so in an exemplary manner with professionalism. The required actions were well founded, and the board and management were in full agreement.
- Recommendations are often based on practices observed in other institutions and not on increasing risk in our institution. Often some of the recommendations are based on old practices that have been replaced with a more modern approach utilized in financial institutions today.
- Any recommendations and required actions validated actions already taken or planned to be taken by Board/Management.
## Communications

**Survey Statement 4:** The examiners were professional and efficiently conducted examination activities.

**Average Response:** 1.7

**Comments:**
- Too many trainees involved in our examination.
- Examiner-in-charge did an excellent job of keeping the exam team organized. They all made efficient use of their time at the institution.
- Team on-site was a mix of experienced examiners as well as examiners with minimal experience. We appreciate the leadership of the Lead examiners and their willingness to discuss issues the team identified.
- Examiners were professional and good to work with.
- We think the exam teams sent here were great. They were open to interaction and positive dialog, and we really believed that their goal was to identify issues that needed to be fixed to make us a better institution.

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

**Average Response:** 1.7

**Comments:**
- Our EIC did not consider our staff's schedule. Phone calls were too frequent, especially at the end of examination, portraying a rushed process to just finish things up. We would prefer agendas or discussion topics to be emailed prior to a call so that appropriate time can be scheduled for discussion rather than numerous phone calls whenever a thought pops into our EIC’s head.
- One of the things we valued the most were the interactions with the OE. Whether board or management, they were always promptly available. We valued most highly the personal delivery of exam reports, and the interaction with them face to face. This helped greatly the “context” of a particular finding, and the course we needed to set to correct it.
- For the most part, but some findings found their way to the report without thorough discussions with management and were made a bigger issue than expected.
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<th>Survey Statement 6:</th>
<th>Examination communications included the appropriate amount and type of information to help the board and audit committee fulfill their oversight responsibilities.</th>
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<td>Average Response:</td>
<td><strong>1.7</strong></td>
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<td>Comments:</td>
<td>• The board and audit committee were especially pleased with the personal close-out session at their board meeting.</td>
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<td>• Exam communications were adequate.</td>
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<td>• Reports were clear, precise, and detailed.</td>
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<td>• (Used same answer for No. 3) Any recommendations and required actions validated actions already taken or planned to be taken by Board/Management.</td>
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<th>Survey Statement 7:</th>
<th>Examiners fairly considered the views and responses of the board and management in formulating conclusions and recommendations.</th>
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<td>Average Response:</td>
<td><strong>1.8</strong></td>
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<td>Comments:</td>
<td>• The exam team and EIC, in particular, were very open to discussing institution position on different issued.</td>
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<td>• Yes, examiners were very willing to consider the views of management and the board.</td>
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<td>• Examiners were good to request feedback and took our responses into consideration.</td>
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<td>• Exceptional in this regard. We treasured the opportunity to have dialog as the exam progressed, as well as followup calls for validation. They were outstanding in weighing our responses and input.</td>
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<td>• It is very hard to sway examiners' view from a prescribed viewpoint of the agency outlined in examination bulletins or bookletters. These writings have not received the benefit of the rigorous debate involved in the regulatory review process.</td>
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<td>• We were not always in total agreement but did have constructive dialog.</td>
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<th>Survey Statement 8:</th>
<th>FCS-wide guidance from the Office of Examination was proactive and helpful.</th>
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<td>Average Response:</td>
<td><strong>2.0</strong></td>
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<td>Comments:</td>
<td>• FCA is expanding authority and examination processes utilizing information memorandums and modules rather than requesting regulatory changes and going through the comment period process. Not all commercial banking regulations and processes are applicable to Farm Credit.</td>
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</table>
• The institution, board, and audit committee all find these very helpful.
• Guidance reinforced our local practices were sound.
• It helps to see the kinds of exceptions our peers have so we can learn from their experiences.
• We find the Informational Memorandums to be extremely beneficial in anticipating and identifying actual or potential areas of concern.
• The agency seems to be moving into management guidance versus assessing safe and sound business practices.

Responses to Additional Survey Items 9, 10, and 11

Survey Item 9: What aspect of the examination process did you find most beneficial?

• Audit Committee Chair was pleased to get a synopsis of the report prior to issuance.
• Exit conference was informative and efficiently done. Close-out with board was professional, informative, and took time constraints into consideration.
• The team’s willingness to discuss any issues uncovered, and allows management to respond and or challenge their findings.
• Evaluation of our credit administration and credit risk management.
• On-site discussion and interaction.
• Continued to focus attention on key business practices. Had some good suggestions from examiners.
• Pre and post discussions with Examiner in Charge offered the ability to discuss potential findings and have the institution’s position considered prior to conclusion.
• We get a lot out of our communications with our examiners. We always learn something.
• Given the circumstances at our institution, we found every aspect of every exam helpful. We were trying to fix all our holes, and FCA was critical in helping us find them all.
• Having a good FCA team.
• Overall results appear to validate that the institution is operating in a safe and sound manner.

Survey Item 10: What aspect of the examination process did you find least beneficial?

• Continued large focus on pulling and reviewing individual loan files from multiple institutions and industries many of which have been reviewed before and are paying. Seems like overkill.
• Completing part of the exam in the spring and the balance in the fall.
• The discussion of what is expected regarding the investment portfolio was very useful. However, the views expressed by the investment specialist participating in the exit by teleconference out of Denver were incredibly naïve and bureaucratic.
• With the current excellent ag economy, the majority of borrowers are in excellent financial position. Consequently the loan sample included a lot of loans with very minimal credit risk. It would appear the final report presentation could have been by phone, to reduce cost to the system.
• Time delay in receipt of report after onsite examination.
• The amount of time between our exam and report was just too large.

Survey Item 11: Please provide any comments from the Board as a whole regarding the examination process not provided in the preceding responses.

• FCA should return to an examination process which focuses on serving Farm Credit’s mission. Too much emphasis is being placed on “dooms day scenarios,” “ancillary risk management practices,” and “diversity and inclusion efforts,” which do nothing more than increase regulatory burden on institutions.
• We appreciated the openness of all the FCA staff during the exam. They were good listeners, very professional and courteous, and were sincere in their suggestions in areas that could be improved.
• The FCA met with the board of directors at the beginning of the examination. At that meeting they explained the scope of their examination. They answered the questions that were presented to them by directors adequately. They also met with the board of directors after the examination was completed to review the results of the examination. The board of directors was satisfied with the results. All questions by the directors were answered adequately by the examiners. An executive session was held with the examiners present with several questions being asked and answered. The examination process increased the board of directors’ confidence that our institution is operating in a safe and sound manner and that no material deficiencies were present.
• The examiner in charge was very effective in managing the examination process and in not only communicating the results, but engaging with the board.
• The Board appreciates very much that the exam team took into consideration the comments from management and the board and responded appropriately.
• The Board was pleased with the exam and about half our board is fairly new and they feel they learn something every time.
• The Board wishes to thank FCA for its oversight and proactive posture. In particular, the professional engagement and interaction with RSD and from OE. We would not be where we are today without their involvement and professionalism.
• Appreciate the opportunity to visit with the FCA team in person at the board meeting when the examination report is presented.
• The Board observes a movement from the agency to reduce flexibility in business practices to serve a marketplace according to a mandated mission.
• The Board/Management as a whole appreciates feedback from the examination process.
• The examination as a whole promoted much discussion in the board room. While we cannot predict the future, we feel we will be better managers of portfolio risk in the future.