Introduction

Based on the interface FCS institutions had with the Agency's examination function during the period July 1 – September 30, 2010, the Office of Examination (OE) identified 15 FCS institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 15 institutions on October 29. All 15 institutions submitted completed surveys.

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 based on communication with the institution.

December 14, 2010
Survey Results – Fourth Quarter FY 2010

Average numerical responses to survey statements 1 - 9 ranged from 1.7 to 2.4.

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<th>Average Numerical Responses to Survey Statements 1 – 9</th>
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The average response for all survey statements was 2.0.

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<th>Average Response for all Survey Statements</th>
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The above represents a slight decline in the average numerical ratings this quarter. However, for the year, the 2.0 is consistent with the average response to all survey statements in prior quarters.

In the fourth quarter results, there was one “5” (Completely Disagree) rating (see the first bullet under the survey statement 9) and eight ratings of “4” (Somewhat Disagree) spread among survey statements 1 – 4 and 8.

In this fourth quarter, unlike most prior quarters, more than half of the comments to survey statements 1-9 were negative, albeit only very slightly. (All negative comments of any degree are color coded in red.) There were a number of very negative comments, i.e., the first bullets under survey statements 3, 4, 5, 8, and 9. The first two bullets under survey statement 7 were slightly less negative.

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. As would be expected by what the question asks for, all comments are negative. However, the first two bullets under this survey item seem particularly so.

Survey item 11 asks for any additional comments. Of the three comments received, two were positive and one was negative.

Survey Results – FY 2010 Summary

For FY 2010, the OIG issued 61 surveys and received 58 completed surveys. This is a very favorable 95 percent response rate. An additional survey from the fourth quarter of FY 2009 was received during the second quarter of FY 2010 and included in that quarter’s report. As a result, a total of 59 surveys are represented in the FY 2010 Summary Report on page 7.
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:** 2.1 (3rd quarter was 1.9, 2nd and 1st quarters were 1.8)

**Comments:**
- The exam became involved and detailed into some very minor risk issues.
- We agree that an 18 month cycle is appropriate and the scope encompasses the major risks.

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

**Average Response:** 2.3 (3rd quarter was 1.7, 2nd quarter was 2.2, 1st quarter was 1.9)

**Comments:**
- The dialogue with management and staff is always a good reminder of laws and regulations and the perspective of the regulator.

**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:** 1.9 (3rd, 2nd, and 1st quarters were 1.9)

**Comments:**
- The Board believes the examiners had an agenda and disregarded the safety, soundness, and experience of management and Board in the analysis process.

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

**Average Response:** 2.1 (3rd quarter was 1.8, 2nd quarter was 2.1, 1st quarter was 1.9)

**Comments:**
- Two young examiners had difficulty analyzing credit. They wanted a detailed written narrative on every loan to enable them to understand the credit without analyzing it.
- New examiners are not knowledgeable of business operations and have limited practical application. There is an overwhelming desire to have everything written down and documented. If life were only that easy!
• There were several trainees on the exam team, and they were not as knowledgeable or efficient as the more tenured examiners (as would be expected.)
• EIC was very knowledgeable and very professional.

Communications and Professionalism

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

Average Response: 1.9 (3rd quarter was 1.6, 2nd quarter was 2.3, 1st quarter was 1.9)

Comments:
• One examiner on site was completely inaccurate and made numerous inappropriate statements and conclusions. The remainder of team met all of these criteria.
• Examination staffers were very professional in their communications with institution staff.
• Lead examiners established an open channel of communications to identify a mutually agreeable date for the exam and to telegraph the scope of the exam.

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: 1.8 (3rd quarter was 1.5, 2nd quarter was 2.1, 1st quarter was 1.9)

Comments:
• There was a good exchange between Examination Group and the institution Board during the final presentation of findings.

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

Average Response: 1.7 (3rd quarter was 1.8, 2nd quarter was 2.4, 1st quarter was 2.0)

Comments:
• All examiners except one handled themselves in a very professional manner.
• We had too many trainees present for the onsite review.
• As stated earlier, EIC was very professional. He kept the examiners focused and the process was less intrusive than in the past.
• The process for obtaining requested documents is very efficient. Lead examiners were sensitive to minimizing the disruption to our daily work.
Survey Statement 8: Examiners fairly considered the views and responses of the board and management in formulating conclusions and recommendations.

Average Response: 2.1 (3rd quarter was 1.5, 2nd quarter was 2.2, 1st quarter was 2.0)

Comments:
- They listened politely yet comments made by the Board fell on deaf ears.
- Examination team supervisors met with Board and management and made demands which could have been considered threats without any regard to the views and response of Board and management.
- Examiner-in-Charge provided opportunity for institution to respond to identified weaknesses prior to formulation of opinions and development of review conclusions.
- Concerns and recommendations were appropriately discussed with management’s perspective.

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: 2.4 (3rd quarter was 2.0, 2nd quarter was 2.2, 1st quarter was 2.1)

Comments:
- Much of information was not timely or useful in solving current issues. Had FCA created these before the economic downturn they would have met the objective. As it was, they only created much additional work load for an already overstressed staff and Board. (First bullet under Survey Item 10b submitted by same commenter.)
- While some bookletters have been useful others have lacked clarity and direction.
- Getting so many memos from FCA that it is hard to keep up.

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

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

- Loan Portfolio Management Allowance for Loan Loss.
- Having the opportunity to have an “entrance meeting” with the exam team to discuss issues specific to our institution.
- Discussions with the experienced staff.
- The openness that the examiners had in answering questions.
- On site reviews are always helpful as they give another view to the institution operations.
- Non-disruptive; efficient and organized; very knowledgeable.
- Observations and recommendations related to Loan Portfolio Management.
• Dialogue with the Office of Examination is always constructive and welcome. Our experience is that concerns can usually be addressed quickly and to the satisfaction of both parties.
• On site team was thorough and pointed out our omissions and errors by management and Board.
• The ongoing dialog that takes place vs. the old model that focused on one 2-week onsite exam visit.
• We feel the entire examination process was beneficial.

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

• Trying to close barn door after horse is already gone. As stated above (First bullet under Survey Statement 9 submitted by same commenter.), many of issues would have been beneficial if created timely (prior to problems). What actually happened, huge demands were made in very short timeframes which did nothing to cure current problems and in fact deterred the efforts to fix existing issues. FCA believes institution should have had foresight to protect itself and we agree. We also believe FCA should have had foresight to implement its practices early enough to benefit the institution rather than when they were a detriment. Alternatively, much of the demands of FCA could have been on a much longer timeframe as they had no bearing on current issues. This would have increased institution staff dedication to current problems.
• We had two examiners who were not experienced enough to hold the positions they had and too much emphasis was placed on their analysis.
• Examiners with no or limited business experience.
• Loan Pricing Programs, Compensation Plans.
• Due to the number of trainees present during the onsite examination too much time was spent answering their questions.
• Disruption of daily operations, while not material, does cause additional duties for the staff during the onsite review.
• Continual checking and re-checking of individual loans.

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

• There was a rather lengthy delay between the completion of the examination and the delivery of the final report.
• The FCA practice of bringing in a large group of examiners to complete the onsite work in a timely manner is helpful to the institution in its scheduling and time management.
• Communications were timely, clear and professional.
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The total number of completed surveys represented in this table is 59.