

**Fourth Quarter (July 1 – September 30, 2013)
and Fiscal Year (FY) 2013 Summary Report**

**OFFICE OF INSPECTOR GENERAL'S (OIG) SURVEY OF FARM CREDIT SYSTEM (FCS)
INSTITUTIONS REGARDING THE AGENCY'S EXAMINATION FUNCTION**

Introduction

During the period July 1 – September 30, 2013, the Office of Examination (OE) identified 14 Farm Credit System institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 14 institutions on October 24, 2013. Of the 14 institutions surveyed, 12 submitted completed surveys. When outstanding responses from prior quarters are received, they are included in the next quarterly report. Two responses to the survey issued for the third quarter of FY 2013 were received and are included in this 4th quarter report. Therefore, this report includes a total of 14 responses.

The OIG will continue to provide an email report to you based on each fiscal year 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 fiscal year 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. These responses are not included in averages.

Narrative responses are provided verbatim, except 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 – Fourth Quarter FY 2013

Average numerical responses to survey statements 1 - 8 were 1.9 to 2.3.

FY 2013 Average Numerical Responses to Survey Statements 1 – 8			
4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
1.9 – 2.3	1.4 – 1.9	1.3 – 2.4	1.5 – 2.6

The average response for all survey statements was 2.1.

FY 2013 Average Response for all Survey Statements			
4 th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter
2.1	1.7	1.7	1.9

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. It elicited a number of thoughtful responses from full Boards, which was the objective of the question.

Survey Results – FY 2013 Summary

For FY 2013, the OIG issued 55 surveys and received 45 completed surveys. An FY 2013 Summary Report is on page 8.

Responses to Fourth Quarter Survey Statements 1–8

Examination Process

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.

Average Response: 2.0 (third quarter 1.9, second quarter 1.7, first quarter 2.0)

Comments:

- There was a lot of learning for both the examiners and for us. Appropriate focus was placed on corporate governance structure, board policies, reporting processes, security, etc. A lot of focus was placed on technology, which is completely outsourced. **Examiners spent time on the details of our vendors' infrastructure, which is not within our or FCA's control. Two of the on-site examiners were here because they are technology experts – this seemed out of proportion with the nature of our business.**

- A suggestion is to separate the evaluation and rating of management from board governance. Since the current evaluation is grouped into one numerical rating, it is difficult to address any problems. It is important to understand the areas of weakness – at the management level or board level, or both. Otherwise, it leaves management and board to speculate where FCA believes the real concerns lie.

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

Average Response: 2.3 (third quarter 1.8, second quarter 1.6, first quarter 1.9)

Comments:

- Examiners first attempted to apply expectations regarding standards of conduct relative to “agents” which far exceeded the regulatory requirements. Only after numerous discussions did the examiners acknowledge this overreach.
- The examiners took their time/attention to arrive at the correct interpretation for our situation. It wasn’t a one size fits all approach. They were thorough. Standards of Conduct findings in report of examination would be hard to support in a legal interpretation of the bylaws. Agency appeared to make the decision based upon the possibility of a future vote or issues that did not currently exist. This has damaged a long term relationship with an outstanding director.
- The exception to “AGREE” is regarding the regulations concerning concurrence and notifications. These regs are not enforced. With the level of over-chartered institutions in the district, there is much competition among system institutions and consequently has led to much dysfunction and little respect for territorial boundaries.

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: 2.2 (third quarter 1.8, second and first quarters 2.0)

Comments:

- Recommendations made added little value.
- The reporting requirements are excessive and a burden on the board, management, and staff over an extended period of time. Both FCA and the institution should re-evaluate the reporting requirements and determine if they continue to provide value to the board, the FCA, and management.
- The examiners met with us to explain their findings and make sure we understood the premise of their comments. The Audit Committee, board, and management have discussed the report. A Corrective Action Plan has been prepared that we feel is appropriate and consistent with the report. We feel the examination helped to appropriately improve our institution’s risk profile.

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

Average Response: 2.0 (third quarter 1.4, second quarter 1.3, first quarter 1.5)

Comments:

- Examiners were very professional. Resources devoted to exit meeting (with senior management and two directors) were excessive considering the lack of any material findings.
- Examiners were very professional.
- The Examiner in Charge and the examiners were professional, laid out a timeline and followed through as promised. They were helpful in explaining what they were doing and why, took more time when it was warranted, and doubled back on items as needed. It was apparent that, at times, the material we uploaded to the FCA site in advance had not been reviewed and we would be requested to provide information we had already sent. Professionalism – one examiner lacked professionalism, in our view, when she commented to the board that we needed between [dollar amounts removed] in our allowance account with no solid basis for her statement. Efficiency – the review team did their best to conduct an efficient review. The institution did not have timely collateral valuation information on two substandard non-accrual loans, which slowed progress and delayed the final report.
- Most all were professional. One examiner is very unprofessional.

Communications

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

Average Response: 2.1 (third quarter 1.4, second quarter 1.5, first quarter 1.9)

Comments:

- The examiners communicated well with the institution management.
- All communications were professional, timely, accurate and clear. The examination team seemed to be well coordinated in their communications with us.
- During the period leading up to the examination the institution had several interim EIC's which complicated examination scheduling.
- Clear communication is sometimes difficult because of differing styles of communication between FCA and institution staff.
- Timeliness of the final report could be improved.
- Institution staff was clear, accurate, and timely.
- [Three names removed] were all very professional, fair, and effective in their roles.

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: 1.9 (third quarter 1.6, second quarter 1.6, first quarter 1.7)

Comments:

- The management team was able to take action based on information from the examiners. The Audit Chair and Board Chair appreciated the conference call with FCA examiners explaining the preliminary report. The examiners were responsive to their questions, and were open to feedback and discussion. This resulted in “reframing” a couple of items in the report, which was appreciated. The Board and Audit Committee felt the report provided the appropriate amount of detail and explanation.

Survey Statement 7: Examiners fairly considered the views and responses of the board and management in formulating conclusions and recommendations.

Average Response: 2.0 (third quarter 1.6, second quarter 1.6, first quarter 1.8)

Comments:

- The examiners asked good questions to clarify how our institution is different than other Farm Credit institutions. They tested their conclusions and recommendations with management in order to fully understand and reconcile the application of the regulations. The Examiner in Charge was experienced and was thorough in making sure the examiner team understood our situation and any nuances.
- We had some issues that were favorably resolved.
- **Recommendations by examination staff on certain loans were believed to be overreaching.**

Survey Statement 8: FCS-wide guidance from the Office of Examination was proactive and helpful.

Average Response: 2.1 (third quarter 1.9, second quarter 2.4, first quarter 2.6)

Comments:

- Annual National Oversight Plan is very helpful.
- Guidance was timely and useful.
- Information on Collateral Risk Management and Standard of Conduct was helpful.

General Questions 9, 10, and 11

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

- [Name removed] is a significant asset to FCA and provides insightful regulatory oversight to the institution.
- The discussions during exit conferences.
- Examiners were very easy to communicate with.
- The “common sense” approach of the examiner-in-charge, and his ability to focus on the material issues.
- The line of communication between FCA and the institution, Board, and staff has improved and is beneficial.
- Understanding the examination process itself and having experienced FCA staff. Understanding how the regulations apply and having an examination team that was willing to interact fully with us so that both sides had a consistent understanding of issues.
- Review and discussion of risk management and best practices.
- Insight into the Agency’s future direction around the Standard of Conduct process.
- Followup discussion.
- Followup session with the board.
- The examination team provided helpful recommendations and allowed the institution additional time to finalize information related to two substandard non-accrual loans.
- Directors find the final report presentation and interaction on a face-to-face basis beneficial. The management team finds the onsite exit conference the most beneficial.
- Credit quality validation.

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

- Over auditing of standards of conduct.
- Some areas of the examination process cover areas of lending that do not pertain to our institution.
- The attempt to expand standards of conduct requirements through the examination process.
- The burdensome reporting requirements.
- Given that we outsource all technology, there was a lot of time spent on understanding things that are under the control of and the business responsibility of our technology vendors, not our institution or FCA.
- Review and discussion of non-Traditional Agricultural Markets.
- Not much help on the issues raised – not meaningful.
- The overall impact to the final report based upon a late reporting violation. We are not disagreeing with the fact that we were late and should have received criticism. However, it appeared to dominate the report.

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

- Board and FCA group interaction was very open and constructive. There was ample time for interaction on all pertinent subjects.
- The examination process was helpful and educational for management. The Audit Committee and Board were satisfied with the level of detail and the opportunity to interact with the Examiner in Charge and the Program Manager/Operations Risk Program officer.
- The examiners were professional and engaged in constructive discussions with the Board and Management.
- We appreciate FCA working with us and understanding the unique aspects of our institution and the territory we serve.
- The Agency continues to raise the bar on Board activities, requirements, and time commitments needed to oversee institution activities. **The Board feels the Agency should consider the difference between a privately held financial institution and an Agricultural Credit Association.** The Directors sitting at the Board table are there to support the mission of the FC System as compared to the financial impact of decisions made to individual shareholders in a commercial bank. **We are different and the Agency should not apply the same banking rules to FC.**

FY 2013 Summary Report

Numeric Responses to Survey Statements 1-8

Question	PERCENTAGE OF TOTAL RESPONSES												Total No. Responses	Average Response
	Completely Agree (1)		Agree (2)		Neither Agree nor Disagree (3)		Disagree (4)		Completely Disagree (5)		Does Not Apply * (6)			
1	10	22.2%	30	66.7%	4	8.9%	1	2.2%	0	0.00%	0	0.0%	45	1.9
2	11	24.4%	30	66.7%	1	2.2%	3	6.7%	0	0.00%	0	0.0%	45	1.9
3	10	22.2%	23	51.1%	7	15.6%	2	4.4%	0	0.00%	3	6.7%	45	2.0
4	25	55.6%	14	31.1%	6	13.3%	0	0.0%	0	0.00%	0	0.0%	45	1.6
5	16	35.6%	24	53.3%	5	11.1%	0	0.0%	0	0.00%	0	0.0%	45	1.8
6	16	35.6%	26	57.8%	3	6.7%	0	0.0%	0	0.00%	0	0.0%	45	1.7
7	14	31.1%	26	57.8%	4	8.9%	0	0.0%	0	0.00%	1	2.2%	45	1.8
8	6	13.3%	22	48.9%	16	35.6%	1	2.2%	0	0.00%	0	0.0%	45	2.3
Total Responses	108		195		46		7		0		4			1.9

* "Does Not Apply" not calculated in percentages.