

**Second Quarter Fiscal Year 2009
(January 1 – March 31, 2009)**

**Office of Inspector General's 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 January 1 – March 31, 2009, the Office of Examination identified 16 FCS institutions that were in a position to provide meaningful survey responses.

The OIG sent surveys to those 16 institutions on April 22, 2009. A follow-up e-mail was sent to nonresponding institutions on May 21. Of the 16 institutions surveyed, 15 submitted completed surveys. If the nonresponding institution subsequently sends a completed survey, it will be included in the next quarterly report.

One response to the survey issued for the first quarter of FY 2009 was received subsequent to the first quarter report and is included in this report. As a result, this report covers 16 responding institutions.

The OIG will continue to provide an e-mail 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 September 30 report will continue to include fiscal year summary data.

The survey asks respondents to rate the 9 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.

Survey Results – 2nd Quarter FY 2009

Average numerical responses to survey statements 1 - 9 ranged from 1.7 to 2.1. (For the first quarter FY 2009, the range averaged 1.6 to 2.2.)

The average response for all survey statements was 1.9. (For the first quarter FY 2009, the average response was 2.0.)

The majority of narrative comments to survey statements 1 - 9 were positive. However, there were a few negative comments that should provide opportunities for you to refine examination methodology and communications, and examiner training. **These are color coded in red.**

Survey item 10a asks for feedback on the most beneficial aspects of the examination process. Consistent with prior quarters' survey 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. Many of these comments should also provide opportunities for you to refine examination methodology and communications, and examiner training.

Survey item 11 asks for any other comments. All comments but one were positive.

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 (1st quarter was 2.0)

Comments:

- The frequency of examinations has increased in the past two years.
- Scope and frequency have been appropriate.
- The streamline category has been a real positive for our institution. Differential supervision is the most effective and efficient way to conduct the necessary exam function.

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

Average Response: 2.0 (1st quarter was 2.2)

Comments:

- The scope of the examination was limited to two areas. There were no noted violations of laws or regulations.
- Mainly in regards to minor/insignificant areas—major authorities, laws and regulations were already well known to institution.
- Team members provided guidance regarding borrower’s rights and distressed loan servicing, areas the institution has not been involved with in a number of years.
- It provides good reinforcement and support.
- Positive relationship helps serve the Institution by being better informed.

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: 1.8 (1st quarter was 2.0)

Comments:

- Most of the findings were recommendations based on “Best Practice.”
- Minor/insignificant issues were appropriately dealt with in wrap-up discussions and thus were not reflected in the final report.
- Have implemented action plans on all recommendations.

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

Average Response: 2.1 (1st quarter was 1.9)

Comments:

- **New examiners inexperience shows up in several areas during reviews.**
- When in doubt, they went to others to find the answers.

Communications and Professionalism

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

Average Response: 1.8 (1st quarter was 1.6)

Comments:

- Excellent communication with onsite team as well as communication in advance and subsequent to the exam.
- Both prior to, during and after the exam. Appreciated follow-up with the institution Board after the exam was issued. Also, appreciated pre-exam work with the Audit Committee.
- The staff seems to be especially alert to communicate well.

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 (1st quarter was 1.9)

Comments:

- Yes, the examination staff met with the audit committee of the Board to communicate the results of the examination.
- There seemed to be a good exchange of information between the FCA examiners and the board at the exit conference.

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

Average Response: 2.0 (1st quarter was 2.1)

Comments:

- Most efficient exam the institution's officers and board members have ever experienced.
- Offsite examinations leave a lot to be desired. Again, inexperienced examiners do not have the ability to make critical determinations about an institution on an offsite basis. One-on-one discussions are always the best way to explain issues that develop between the examiner and the institution.
- Continuing exam helps.

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

Average Response: 1.9 (1st quarter was 1.9)

Comments:

- Examiners listened and were open-minded to management and board comments and clarifications concerning operations.
- Very good open and frank dialog during and following the exam.
- **New inexperienced examiners lack the common sense necessary to adequately complete a review.**

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: 2.0 (1st quarter was 2.2)

Comments:

- E-updates are helpful and timely.

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

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

- The examination was limited to one week and the focus of the exam was centered on two areas of risk to the institution.
- By using a risk-based approach, and thus including the institution in the “low risk” exam group, staff time was greatly reduced over the entire examination period.
- The ongoing communications between the examiners and the institution staff.
- FCA’s assessment of Board and Management in overall performance and specific operational areas.
- Identification of some areas of improvement in credit policies.
- One-on-one discussions with reviewers.
- Experienced exam team members who were very open to goals and actions of the institution while we are operating in a very difficult credit environment.
- Examiners were very helpful in making meaningful suggestions in several areas.
- It gives us an objective look at ourselves.
- Face-to-face feedback and meetings.
- Our examiner in charge, Melinda Huber, has built a very constructive and proactive relationship with us; Eric Rodney “gets it” – he has a very strong background in technology and security. (Names left in on purpose.)
- Audit exit conference.
- 1. Streamlined process; 2. White papers and best practices memos are helpful.

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

- Feedback on existing loans to specific industries and performance issues related to those specific areas.
- Critique of business plan included several items that in view of current market conditions seemed to be of minor importance.
- Usually at least one reviewer will tend to be biased on subject matter in his/her specialty area.
- We have to send the same information numerous times and sometimes to the same people.
- Some of the feedback on review of Annual Report and AMIS are too detailed. These reviews could be based more on the spirit of the guidelines, not on the exact letter.

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

- We appreciate the on-going discussion during the on-site examination to discuss and clarify any outstanding issues.
- Mr. Dickinson, Mr. Gist, and Mr. lanetta were very professional in all communications and discussions. The “in person” meeting to introduce Mr. lanetta as our new exam manager was very beneficial and appropriate. (Names left in on purpose.)
- Exam team was professional & courteous. Exam team provided management the opportunity to present and discuss relevant information during the process.
- **Frequency of examinations does create a burden on staff and management.**
- We give FCA very high ratings in both areas.
- Very professional, constructive and efficient. Little disruption institution operations.
- A constructive and professional process.