
Deposits/Borrowed Funds Program

Examination Objectives

To determine if the established strategic plans, policies, procedures, and practices related to deposit solicitation/retention and borrowed funds adequately addresses safety and soundness, near- and longer-term profitability, and compliance with laws and regulations.

To determine whether the thrift's officers and employees are operating in conformance with the established plans, policies, procedures, laws, and regulations.

To determine the thrift's ability to generate market rate deposits, and its ability to access borrowed funds.

To determine the adequacy of management's monitoring of deposits/borrowed funds.

Examination Procedures

Level I

Wkp. Ref.

1. Coordinate responsibilities and communicate findings with the examiner(s) assigned to the review of cash flow/liquidity management and funds management.

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2. Review the previous report of examination and all deposits and borrowed funds-related exceptions noted and determine if management has taken appropriate corrective action.

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3. Obtain and review strategic plans, marketing plans, policies, and procedures related to deposits and borrowed funds. Determine whether these plans and policies are integrated in the goals and objectives of the business plan. Planning and policy guidelines should address safety and soundness issues, near-term and longer-term profitability, and compliance with laws and regulations.

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4. Determine that written plans, policies, and procedures are reviewed and updated as necessary and that policy changes are communicated to appropriate personnel.
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Exam Date: _____

Prepared By: _____

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Docket #: _____

Deposits/Borrowed Funds Program

Wkp. Ref.

5. Analyze the present sources, volumes, and trends of deposits and other borrowed money (e.g., core deposits, volatile deposits, short- or longer-term borrowings).

6. Assess the adequacy of management's evaluation of the thrift's near-term and longer-term funding needs, and of the advantages/disadvantages of alternative funding sources as well as the thrift's access to those sources.

7. Evaluate the present deposit and other borrowing structure in terms of:

- Deposit pricing (e.g., at, above, or below-market competition);
 - Cost of the various major types of deposits and borrowings in relation to the thrift's overall cost of funds and the spreads between these sources of funds and the earnings of the assets funded;
 - Availability of assets to collateralize borrowings;
 - Major mismatching of short-term sources of funds financing long-term assets;
 - Liquidity;
 - Level of capital; and
 - Ability to extend or repay maturing borrowings.
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8. Evaluate whether planned growth is achievable, cost/beneficial, and supported by adequate capital. Refer to the supervisory guidelines contained in Regulatory Bulletin 3b, Policy Statement on Growth for Savings Associations.

Exam Date: _____

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Docket #: _____

Deposits/Borrowed Funds Program

Wkp. Ref.

9. Review the adequacy of management reports and the information systems to provide management and the directors with information that is accurate, relevant, and useful for decision making and for monitoring compliance with on-going plans and policy guidelines.

10. Evaluate management's expertise to carry out its responsibilities to conduct deposit solicitation/retention and borrowing activities in a prudent, safe, and sound manner.

11. Analyze brokered deposits to determine the volume of uninsured deposits, concentrations of deposits from a particular broker or group of brokers, money desk activity, and adequacy and completeness of records.

12. Determine if more than two percent of the deposits are concentrated under the control of, or payable to, one entity.

13. If the thrift is not well capitalized, determine compliance with the restrictions or prohibition on brokered deposits.

14. Review reports of broker fees paid and subsidiary expense ledgers for any unusual brokered deposit activity. Confirm that a deposit broker is registered with the FDIC per § 337.6 if needed.

15. Review a sample of trade tickets and confirmations of financial market borrowing transactions such as reverse repurchase agreements. Test check that these transaction records correspond to the transaction logs, reports to management and the directors, and to the general and subsidiary ledgers.

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Reviewed By: _____

Docket #: _____

Deposits/Borrowed Funds Program

Wkp. Ref.

16. Evaluate the appropriateness of amounts of collateral for reverse repurchase agreements, and report any evidence of over-collateralization.

17. Review the reconciliation of suspense accounts.

18. Review the Level II procedures and perform those necessary to test, support, and present conclusions derived from the performance of Level I procedures.

Level II

19. Obtain a listing of deposit accounts of directors, officers, and other affiliated persons. Test check these accounts for preferential rates and appropriate board approval of overdrafts.

20. Reconcile borrowed funds balances to the general ledger.

21. Ensure that the Objectives of this Handbook Section have been met. State your findings and conclusions, as well as appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages.

Examiner's Summary, Recommendations, and Comments

Exam Date: _____
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