Office of Thrift Supervision

Regulatory Bulletin

Handbooks: Thrift Activities
Holding Companies
Service Corporations
Subject: Handbook Series Implementation

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Guidelines for Implementation and Use of the Regulatory Handbook Series

Summary: One of the objectives of the Regulatory Handbook series is to explain how to streamline the regulatory process. To this end, familiarization with the Handbooks is essential. This Bulletin sets forth guidance for using the Handbooks and includes a synopsis of the regulatory approach for the Handbook series.

For Further Information Contact: Your District Office or the Supervision Policy, OTS, Washington, D.C.

Regulatory Bulletin 25

General Policy

The regulatory philosophy advocated throughout the Regulatory Handbook series is predicated upon the concepts of risk analysis and prioritization. Regulatory personnel have the flexibility and the responsibility to direct resources to the areas of greatest perceived risk, both within an individual thrift institution and within the thrift industry as a whole.

Responsibility for proper use of the Regulatory Handbooks rests with each examiner and ultimately with the District Director. Managers at all levels must make sure that regulatory staff properly utilize the Handbooks. Consistent application of the regulatory approach contained in the Handbooks will result in a more efficient examination function.

Examination Scheduling

The overall effectiveness of the supervisory process can be considerably enhanced if examinations are completed promptly and not allowed to extend over long time periods. To achieve this goal, the District offices must assign adequate resources at the outset of each examination. District management should ensure that the experience and knowledge levels of staff assigned to an examination are appropriate to the institution's risk profile.

Examination Planning and Scoping

On-site examination productivity can be significantly enhanced by following an appropriate and clear examination scope. It is not efficient to begin with a broad scope and then try to narrow it over the course of the examination. Instead, the examination should initially focus on high risk areas (e.g., management, asset evaluation, interest rate risk, capital adequacy, etc.) and should then be expanded as other significant problems are uncovered or suspected. The District's Regulatory Plan for the institution should serve as the basis for the initial scope since it emphasizes risk assessment. In turn, any significant examination findings and recommended corrective actions should be quickly incorporated into the Regulatory Plan. Section 060, "Examination Scoping and Control," of the Thrift Activities Handbook provides more specific guidance on the scoping process. Scoping procedures for service corporations parallel those used for the parent thrift institution. (Refer to Section 150, "Administration," in the Service Corporations Handbook for additional information.)

Examination Administration and Management

Examination efficiencies can be achieved through proper time management and control of each examination phase. The progress of the examination must be regularly evaluated so that objectives can be met on a timely basis. One key to achieving examination efficiency is having a comprehensive monitoring program that facilitates the setting of examination scopes and overall regulatory strategies. A properly established scope will lead to a speedy completion of the on-site examination process.

During an examination, the unnecessary expenditure of resources can be avoided when early analysis indicates that no material problems exist within a particular area of review. Resources must not be expended during an on-site examination in collecting and analyzing data that are of no apparent benefit or lead to conclusions that could have been reached through the use of readily available data and proper examination planning and scoping.

Senior personnel must be involved in the examination process. Frequent communication between field and office personnel should be

stressed. Field Managers, Caseload Managers, or equivalent positions must establish a frequent presence at examination sites and be available by telephone or other means of communication to answer questions and provide a sounding board for on-site staff. Field Managers should visit every examination at least once and must visit all examinations in which a 3, 4, or 5 composite rating will be assigned. The on-site presence of Field Managers should help reduce time spent on off-site report review.

Use of Programs and Procedures

Each of the Handbook programs is structured in a top-down fashion. The top-down approach begins with a review of policies, procedures, and internal controls while focusing on the overall safety and soundness of the institution. This approach was developed so that regulatory personnel can expeditiously assess the degree of risk inherent to specific areas of a thrift's operations and assure proper resource utilization. In order to achieve maximum benefit, regulators must exercise sound professional judgment when using this examination approach.

All programs in the Thrift Activities and Service Corporations Handbooks should be completed according to the time frames set forth in the "Minimum Regulatory Matrix" (Section 080 of the Thrift Activities Handbook). **However, the fact that all programs should be completed does not mean that all or even a majority of the procedures must be completed.** Handbook procedures and questionnaires are to be used *only* to the extent necessary to reach a sound conclusion.

Communication Between Regulators and Institution Management

Communications play an important part in the examination process. If courteous, professional relations are established between regulators and management at the onset of the examination, it will expedite the examination. Frequent oral communication during the examination is useful for obtaining information from institution staff that might not otherwise be available from a review of documents.

OTS personnel should discuss with management its approach to lending, investment, and self-classification before initiating an asset review. All assets classified following the asset discussion and review, as well as major examination findings, should be discussed with management prior to concluding on-site activities. The purposes of such discussions are to explain all of the examination findings that might be reported, to answer any questions posed by management, to ensure that conclusions are accurate, and to elicit management's corrective action.

Meetings with boards of directors help keep directors and regulators mutually informed by providing the opportunity for interaction and facilitating long-term communication. It is especially important that regulators meet with boards of directors after the completion of an examination, as well as when any other events occur that may have a significant adverse impact on the institution.

Documentation

Examination work papers should describe the scope, document the procedures performed, and support conclusions reached for each area of review; however, excessive documentation should be avoided. Professional judgment should be used to determine what information is relevant or may require follow-up at a subsequent examination, and what information is extraneous to the process. For example, only the pertinent sections of the loan review line sheets should be completed. Programs that are deemed unnecessary or minor should be included in the work paper files with a notation, initialed by the Examiner-In-Charge, explaining why the procedures were not necessary. Likewise, making excessive copies of institution documents for inclusion in the work papers should be avoided if the material is readily available, kept by the institution, and not needed to support a major examinatic finding.

Report of Examination (ROE)

The ROE is a critical component of the regulatory process. Examination comments should be clear, concise, and written in a comprehensive format (i.e., a statement of the scope, a description of the analysis, and the findings). In its ideal form, the ROE serves to inform the board of directors of the OTS' conclusions and intentions regarding the institution; it documents the observations and judgments of the examiners; and it identifies the major corrective measures, if any, that must be taken by the directors and/or regulatory authorities in order to bring the institution into conformance with accepted standards for safety and soundness. If the ROE is to succeed in these critical communications functions, it must be carefully drafted in order to concisely convey the correct messages to its varied audiences.

The ROE Summary should succinctly present the major findings of the examination, as prioritized by the examiner. The purposes of the summary are (1) to portray the overall condition of the institution; (2) set the context for that portrayal by stating the parameters of the general scope of the examination; (3) identify major existing or developing threats to safe and sound operations, and future viability; and (4) describe the measures that must be taken to address those threats. When possible, the summary should be substituted for the supervisory letter. If a supervisory letter is used in conjunction with an examination report, it should generally function as a transmittal document and expand upon the examination findings rather than restate them.

The principal points of the examiner's analysis of both positive and adverse conditions should be included in a concise form in the 'MACRO' sections of the report. If necessary, appendices and work papers should be prepared to complete the portrayal of any complex findings, but exhaustive support for the examiner's findings is neither needed nor desired.

Holding Company Examinations

The Holding Companies Handbook outlines the minimum annual holding company examination requirements as all Level 1 procedures. The Level 1 procedures are basically monitoring functions and are designed to be conducted off-site. These procedures must be performed annually upon receipt of the H-(b)11. Although these procedures are typically performed off-site, the review must be documented as a Level I examination.

Performing Level I procedures in conjunction with a review of the H-(b)11 does not preclude an on-site examination from being conducted simultaneously with the examination of the thrift subsidiary. However, an on-site examination is not required. Even if an on-site examination is conducted, the Level 1 procedures must be performed and documented upon receipt of the H-b(11). This approach ensures that each holding company undergoes a similar review annually, and that an assessment is made as to whether or not an on-site examination is necessary. (Section 200, "Administration," of the Holding Companies Handbook provides specific information on the scoping process.)

Feedback

Supervision Policy encourages feedback from District staff. Forms have been provided in the Handbooks for this purpose. Please mail them to the individual listed on the form. Feedback comments should specifically identify the paragraph(s), page number(s), and the Handbook(s) that are either ineffective, ambiguous, or obsolete. Comments may also address broader concepts and underlying philosophies.

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