

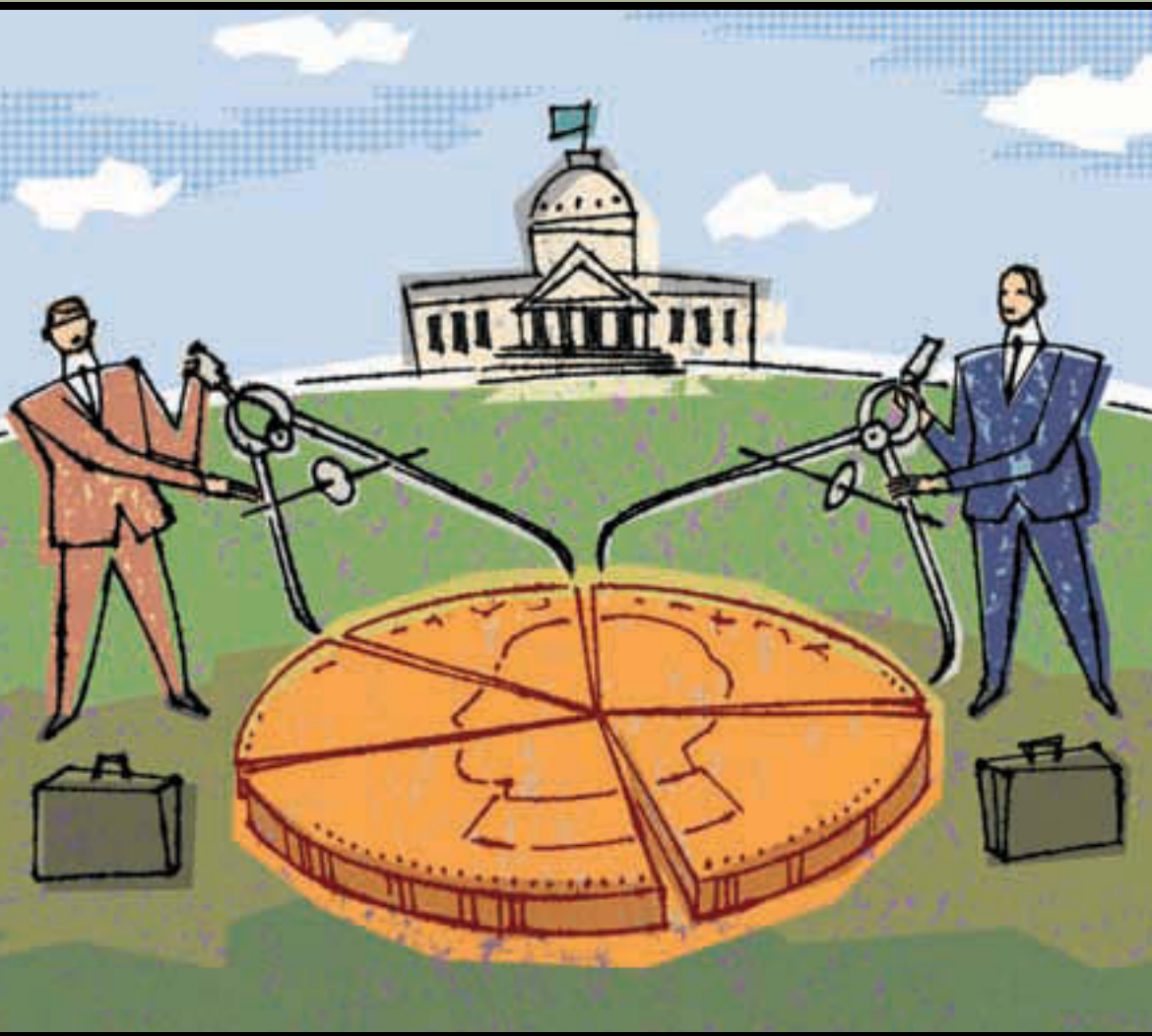


inform. educate. connect.

Western Independent Banker

The Official Publication of Western Independent Bankers

July/August 2010



inside

**Understanding
the Ins and Outs
of Community
Bank Enforcement
Actions**

**Regulatory Exams
– What You Need
to Know to Really
Prepare**

**Navigating Today's
and Tomorrow's
Regulatory
Landscape**

Regulatory Changes and Restructuring

Regulatory Exams – What You Need to Know to *Really* Prepare

BANK EXAMS ARE not getting any easier, but the proper preparation can certainly help alleviate some of the pain. One of the questions we are consistently asked is, “Aside from the examiner’s preliminary request list, what financial reports and analyses do we need?”

To help answer that question, we’ve compiled a *Bank Exam Financial Prep List* that outlines the financial information banks need in hand when examiners show up. I’ll dive into the fundamental components of this list in a moment, but I’d like to first share with you what we’re hearing from banks that have recently undergone exams.

What to Expect – Anything

Examiners are digging deeper than ever before. Banks that are proactive and that anticipate possible questions before examiners arrive benefit. Following are some of the key things your peers have been experiencing.

- **Liquidity, capital and loan quality** continue to be a major focus – Be ready with your documented liquidity policy, both primary and contingent. Also, be able to demonstrate that policies have been followed for interest rate risk management.
- **Document everything** – Examiners are in “CYA mode.” Providing answers to all the questions posed by the examiners during their meetings isn’t enough; have written documentation that supports your bank’s specific strategy.
- **Eye on planning** – Regulators are placing greater emphasis on planning to ensure banks are forecasting potential

scenarios and uncovering issues early on.

- **More details, please** – You’ll likely have to provide examiners with more information than ever before. Be as prepared as possible before they arrive; automation should play a big part in this.
- **Education** – Examiners want to see documentation confirming that banks are continuing to educate employees, management and directors. Furthermore, be ready to educate examiners; often they are not from your state or local area.
- **Quite simply...be prepared** – Be equipped to guide examiners through any potential issues and your resolution plan, and actively demonstrate to them that you are on top of the bank’s performance—this will set the tone and instill early confidence in examiners.

The Bank Exam – Financial Prep List

Your bank definitely needs to address the items on your examiner’s preliminary request list, but high performing banks realize that they must go beyond that to really be ready. Here are the key reports, ratios and documentation to prepare in advance:

- **Pre-exam brief** – Create and deliver an initial brief that includes an overview of the local economy, challenges the bank is facing, how you plan to address those challenges, and where the bank is headed. All of this should be presented in a quick meeting with examiner and management teams in attendance. Often overlooked, this brief will encourage rapport and dialogue up front.



- **Reporting and analysis** – Include an Executive Summary with explanations of variances to budget, Summary of Key Performance Indicators and comparisons to budget, Margin Analysis and its trend for earning asset groups and interest-bearing liabilities.
- **Planning** – Ensure that you have a current, detailed budget and forecast. Project liquidity and capital adequacy. Examiners also want to see 3- and 5-year forecasts in place with all assumptions documented. Perform asset liability modeling quarterly for multiple scenarios.
- **Asset Liability Management** – Thoroughly document your overall liquidity strategy. Develop a Contingent Liquidity Report to document all sources and demonstrate recent contact with each source to confirm limits. Calculate and report your bank’s Dependency Ratio (i.e. dependence on

The key to a good performance management program is to capture the essence of the critical indicators of business success, be it hard goals or essential behaviors, and have all members of the management team empowered and prepared to have frank discussions with their direct reports about how their actions contribute to overall company success.

Consultants to the Financial Industry

Young & Associates, Inc.



Liquidity Planning

Strategic Planning

Regulatory Assistance

Stock Valuations

Capital Markets

Expansion & De Novo Bank Charters

Internal Audit

Information Technology

Recruitment & Human Resources

Lending & Loan Review Services

Compliance

Policy Development

1.800.525.9775
younginc.com



BANKERS WORKING FOR BANKERS

BANK OF THE WEST[®]

Bank of the West provides a dedicated team of professionals to service your complete range of correspondent banking needs. We have the financial strength to offer sophisticated, cost effective solutions along with personalized service. Our global partnership with BNP Paribas offers international opportunities for you and your clients to compete in an expanding global economy.

MARSHA KAWASAKI
Vice President
(213) 972-0511

www.bankofthewest.com



© 2009 Bank of the West. Member FDIC.

potentially volatile liabilities to fund longer-term earning assets). Know your interest rate risk (IRR) as defined in the joint Advisory on Interest Rate Risk Management (January 6, 2010) and demonstrate that you are following sound practices for managing it. Examiners also expect that your bank is closely following the guidance issued in the Interagency Policy Statement on Funding and Liquidity Risk Management (March 17, 2010).

- **Documentation** – Ensure that documentation is current and detailed in the areas of loan pricing strategy, board minutes, credit files, compliance policies and training records.

Minimize the Disruption

Exams certainly aren't going away, so do yourself a favor and automate everything that you can to minimize the impact they have on your team's time. Ongoing communication with your examiners is also essential to helping exams run smoothly. Lastly, don't underestimate the weight that examiners are placing on recent policy statements—they want to see that you have adhered to the practices as outlined in these documents.

In the end, the key to preparing for future bank exams is to anticipate what the examiners may ask for, and proactively give them documented visibility into the bank's performance along with your future plans. We've shared above some key elements of a financial prep list that goes beyond preliminary requests to help you get crucial information in hand for when examiners arrive. Being proactive will instill confidence in the examiners and expedite the process, minimizing disruption and allowing you to get back to business.

Chris Bledsoe is CEO & co-founder of Banker's Dashboard. He can be reached at Chris.Bledsoe@BankersDashboard.com. To obtain a complete copy of the Bank Exam Financial Prep List, please visit: http://www.bankersdashboard.com/documents/BankersDashboard_FinancialPrepList.pdf.