

Assess Your Examination Process: Tell Us the Good, the Bad and the Ugly!

Bankers operate in a highly regulated environment, and regulatory examinations are a necessary ingredient for maintaining a safe and sound financial system. However, examinations can often go awry for myriad reasons, and recent observations suggest that we are at risk of veering away from the collaborative approach to more of a regulatory “gotcha” mentality.

The Regulatory Feedback Initiative (RFI) consists of an *anonymous* electronic survey for bankers to provide assessments of their most recent examinations or visitations. The information is aggregated and analyzed on a national level to improve the regulatory examination process for banks on two fronts:

- Survey results are communicated to bank regulators on a routine basis when unique examination trends are discovered, and;
- Custom bank reports are available to banks to aid them in preparing for upcoming exams by identifying trending areas of focus or criticism.

RFI was created by The Coalition of Bankers Associations in 2011; to date, banks have provided feedback on more than 3,000 examinations. In 2015 FinPro Inc. joined this important effort to assist with analyzing the data generated by RFI and to provide suggestions for improving the survey.

RFI’s leadership, working closely with FinPro’s advanced analytic group and staff of former senior regulators, has streamlined the survey process and improved the relevance of questions. The enhanced survey, rolled out in May, has cut the number of questions by almost 50 percent,

ABOUT THE AUTHOR

This article was written by **Scott Polakoff**, executive vice president, and **Stephen Brown Klinger**, vice president, of **FinPro Inc.** For more information on RFI reports or FinPro’s strategic planning, capital planning, regulatory advisory, new director orientation, and board retreat facilitation services, contact them at 908-234-9398 or by emailing finpro@finpro.us.

which is projected to reduce the average survey completion time from 27 minutes to less than 15 minutes.

While this new platform is exciting, its usefulness is determined by banker involvement. Survey results can actually provide actionable feedback. For example, based on survey responses, the regulatory agencies should Start, Stop and Continue as shown in the following paragraphs.

Start –

Create an appeals process that eliminates concerns of regulatory retaliation. The Riegle Community Development and Regulatory Improvement Act of 1994 required that all regulatory agencies construct an appeals process that attempts to remedy contested filings. RFI data shows a high correlation between banks which reported being “unsatisfied” or “extremely unsatisfied” with their examinations to whether or not the “examination resolved issues and recommended corrective action in a fair and reasonable manner.”

Bankers’ comments show that they yearn for a healthy appeals process that is standardized across agencies and void of regulatory retaliation. From an article published in the *American Banker* on April 8, 2015, titled “Fear of Retaliation Stifles Banks’ Appeals to Regulators,” FinPro’s sug-

gestions for improvement are simple and easy to implement:

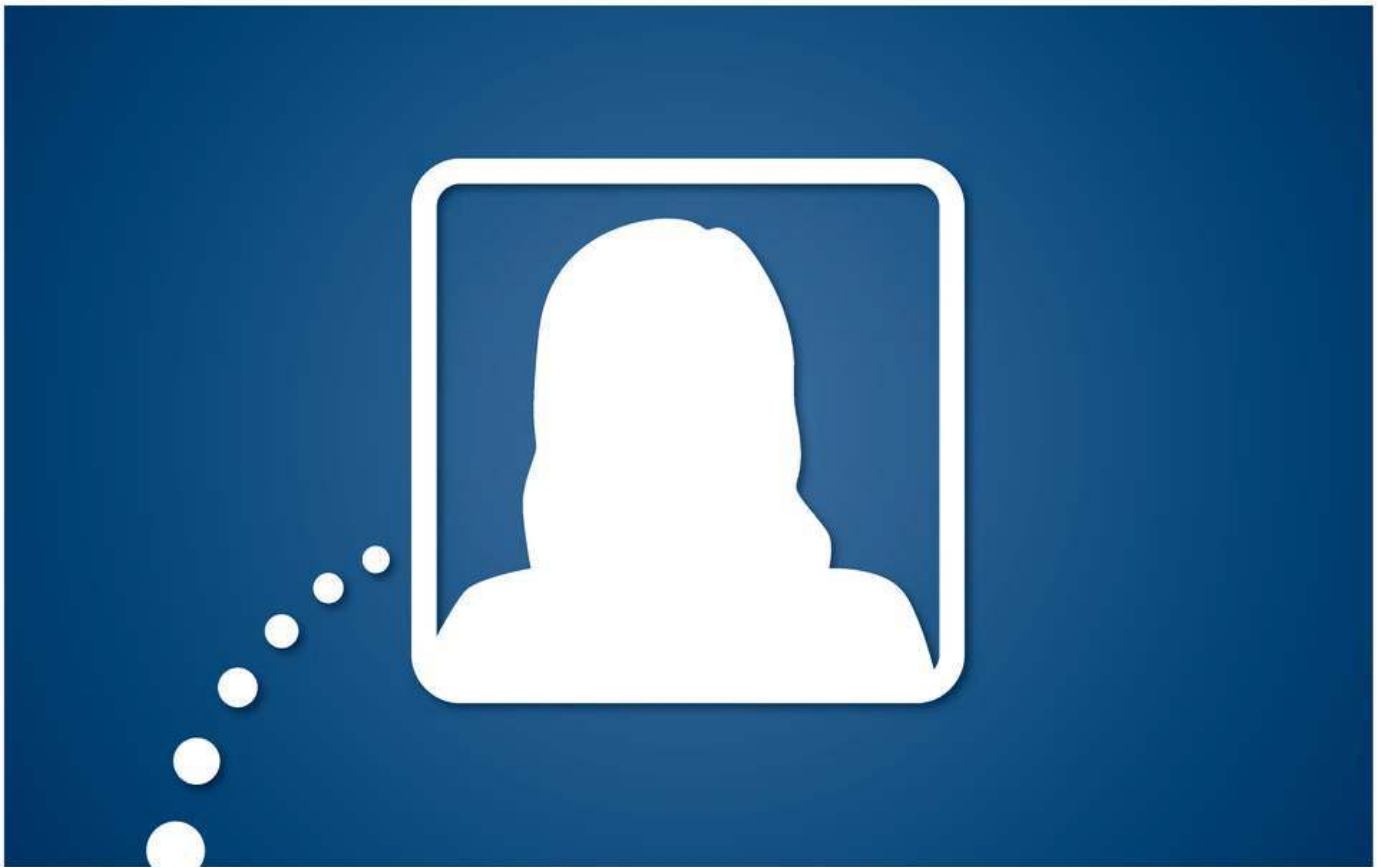
1. Examination standards and findings should be the same, regardless of whether the examination team is from the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency or the Federal Reserve.
2. Appeals should be reviewed and resolved by an interagency group of senior executives.
3. Appeals should have all names and identifiable information redacted before submission to the interagency group. Decisions should be made based on the facts of the case.

Stop –

Only 25 percent of the banks responding to the RFI survey agreed that “examiners applied ‘guidance,’ as opposed to enforceable regulation, appropriately” during examinations. The most common divergences in expectations historically surrounded the application of Appraisal and Evaluation Guidelines (FIL-82-2010), but most recently disagreements regarding the Guidance for Managing Third-Party Risk (FIL-44-2008) have emerged as a trend.

Not surprisingly, 51 percent of the bankers who disagreed with the

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Let your voice be heard!

(without revealing your identity)

By taking our survey you are providing anonymous feedback that will be used to hold regulators accountable. More than 2000 bankers have already participated.

Take a stand. Take the survey.

▶▶ Take the RFI* survey at www.allbankers.org ◀◀

*RFI = Regulatory Feedback Initiative

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above statement reported the examiner-in-charge had been supervising bank examinations for less than five years. Augmenting the experience of examiners is only one part of the solution, however.

Some financial institution letters, such as FIL-44-2008, contain language stating the guidance “should not be considered as a set of required procedures.” However, others contain language that is more ambiguous. For example FIL-82-2010 states that “the Guidelines enhance the requirements for collateral valuation methods.”

The mention of requirements is understandably confusing. Changes in staffing must be combined with a clearer communication of expectations from the agencies to banks.

Continue –

The most polarized results from the current RFI survey data surround

exam preparation. Overall, institutions had positive feedback pertaining to the examination staff being “knowledgeable about important issues and regulatory requirements” and “knowledgeable about your institution.” This indicates an adequate level of preparation by staff prior to examinations.

However, a significant number of comments pertain to banks being given short notice to prepare themselves for the examinations. Examiners should continue to be vigilant in preparing for examinations, but should be equally proactive in communicating information about schedules and timing as early as possible.

In combination with providing examiners feedback, the improved RFI survey and greater bank participation allow for better reports to aid bankers in upcoming examinations. Past survey comments indicate the desire to know such basics as:

- “That BSA and IT were growing hot topics”

- “There is a new focus on detailed policies”
- “The examiner was going to spend 75 percent of their time on interest rate risk”
- “Application of UDAAP specifically to their bank”
- Or generally “when the goal posts moved.”

We hear you, and the reports from the new survey will greatly improve your bank’s ability to stay aware of hot topics in preparation for examinations. While it is always incumbent on senior managers and directors to stay educated on current industry issues and regulations, the chart below shows the areas of greatest criticism in examinations conducted over the last two years.

Bank participation is paramount to the success of the RFI. We encourage all institutions to visit allbankers.org to share anonymous information about their most recent examinations. ♦

Safety and Soundness Examination

Exam Area	Percent of Institutions Receiving Criticism
Interest rate risk management approaches	24%
Credit administration practices	23%
Adversely classified asset levels	21%
Real estate appraisal and evaluation processes	20%
Business Continually Planning	17%

Compliance Examination

Exam Area	Percent of Institutions Receiving Criticism
Real Estate Settlement Procedures Act	24%
Regulation Z (Truth in Lending Act)	23%
Re HMDA/Regulation C	23%
Flood Disaster Protection Act	18%
Regulation B (Equal Credit Opportunity Act)	16%

HONORABLE MENTIONS

Fifteen member institutions of the Indiana Bankers Association were honored in May as “Top 200 Community Banks” in the country by *American Banker* magazine. More than 680 institutions nationwide qualified for consideration, from which 200 banks were chosen and ranked by return on equity over the course of the last three years. IBA-member institutions included in the listing were ranked as follows:

- No. 3 – **United Bank, Evansville**
- 7 – **First Farmers Bank and Trust Company, Converse**
- 45 – **The Farmers Bank, Frankfort**

- 56 – **Farmers State Bank, LaGrange**
- 72 – **Community First Bank of Indiana, Kokomo**
- 73 – **River Valley Financial Bank, Madison**
- 91 – **First State Bank of Middlebury**
- 93 – **First Federal Savings Bank, Huntington**
- 98 – **Crossroads Bank, Wabash**
- 117 – **Peoples Bank, Munster**
- 142 – **First Harrison Bank, Corydon**
- 165 – **The National Bank of Indianapolis**
- 177 – **Logansport Savings Bank**
- 180 – **First Robinson Savings Bank, Robinson, Illinois**

- 185 – **Your Community Bank, New Albany**

Two individuals of IBA-member institutions were elected board officers of United Way of Central Indiana. **Connie Bond Stuart**, regional president of central and southern Indiana, **PNC Bank, NA, Indianapolis**, has been elected chairman of the board. **Deborah Daniels**, managing partner, **Krieg DeVault LLP, Indianapolis**, has been elected secretary of the board. ♦

IBA Presents Slate of New Officer Candidates for 2017

The slate has been set for new officer candidates in 2017 for the Indiana Bankers Association. Elections are to take place at the annual business meeting on Sept. 12 at the IBA Annual Convention in French Lick. New officer positions become effective Jan. 1, 2017; officers serve for one-year terms.

The IBA nominating committee, led by immediate past chairman **Larry W. Myers**, First Savings Bank, Clarksville, has nominated the following officer candidates:

- **Chairman: Annette M. Russell**, Security Federal Savings Bank, Logansport;
- **First vice chairman: Clay W. Ewing**, German American, Jasper;
- **Second vice chairman: Andrew J. Briggs**, Bank of Geneva.

In addition to serving on the IBA board of directors, officers serve on the IBA executive committee, along with the immediate past chairman, two appointed directors and the IBA president/chief executive officer. The executive committee has the authority to act in lieu of the board between regular board meetings.

Annette M. Russell



Annette Russell, candidate for IBA chairman, is president and chief executive officer of Security Federal Savings Bank, Logansport. She joined the bank in 1991. A certified public accountant, Russell is a graduate of Indiana University-Kokomo, of the Graduate School of Bank Investments and Financial Management and of the Stonier Graduate School of Banking. She serves on the American Bank-

ers Association Community Bankers Council. Past involvement includes service on the board of trustees of Logansport Memorial Hospital; as campaign chair for United Way; as chair of the Logansport/ Cass County Economic Development Corp.; on the Reading Railroad advisory board; and on the boards of directors of the Cass County Chamber of Commerce and Special Olympics of Cass County. Additionally she had prior service on the board of the Indiana Bankers Association as first vice chairman, second vice chairman and northwest region director. Russell was granted the Indiana University Kokomo Alumni Association's Distinguished Alumni Award in 2006, was inducted into the IU Kokomo Alumni Hall of Fame in 2013, was named Chamber of Commerce Business Woman of the Year for 2007-08 and completed the IBA Leadership Development Program in 2013. She has been honored twice by *NorthWestern Financial Review* magazine – as a Rising Star in Banking in 2010 and as an Outstanding Woman in Banking in 2014.

Clay W. Ewing



Clay Ewing, candidate for first vice chairman, is president of German American, Jasper. He has more than 35 years of banking experience, and he joined German American in 1994 as president and chief executive officer of a subsidiary bank of the company. Ewing is active in regional economic development and currently serves as chairman of the Perry County Development Corp. and as a board member of the Economic Development

Coalition of Southwest Indiana. He additionally serves on various other civic and community boards and has served the Indiana Bankers Association as second vice chairman and southwest region director. Ewing is a graduate of Lockyear College and of The School for Bank Administration at the University of Wisconsin.

Andrew J. Briggs



Andrew Briggs, candidate for second vice chairman, is president and chief executive officer of the Bank of Geneva. He is the fifth-generation member of

his family to serve as president of the bank. Briggs has 40 years of banking experience and was named to his current position in 1994. He is active on the boards of directors of: Bank of Geneva, chairman; Limberlost Bancshares Inc., chairman; Limberlost State Historic Site, corporate secretary; Adams County Economic Development, treasurer; Adams Public Library System, treasurer; Indiana State Museum, treasurer; and Northeast Indiana Regional Development Authority, which administers matching funds available through the state's Regional Cities Initiative. Briggs previously served as president of the Geneva Town Council, as treasurer of the Northeast Indiana Regional Partnership and as a director of the Swiss Village Retirement Center. Additionally he is a past board member of the Indiana Bankers Association and a member of the IBA Forty Year Club. Briggs is a graduate of Ball State University. ♦