

**American Bankers Association
Regulatory Feedback Initiative
Banker Reports on Recent FDIC Examination Experiences
Summary Report**

Tuesday, September 27, 2011

Since June 1, 2011, bankers have been reporting, anonymously, on their recent regulatory examination experiences. Reports have been made through a standardized, confidential survey developed and maintained by the American Bankers Association and an alliance of State Bankers Associations.

As of September 27, 2011, bankers had filed 740 surveys. Banks of nearly all sizes are represented in the surveys, community banks most heavily represented. **What follows is a report on some of the findings from surveys filed by banks recently examined by the FDIC.** The subset of surveys by FDIC-examined banks totaled 364, and included banks from all 8 FDIC regions.

The information is gathered and presented in aggregate form so as to preserve the anonymity of the bank providing the information. On some questions additional narrative comments are allowed, but only if they do not breach anonymity of the reporting bank.

Survey Results:

- **Satisfaction with Exams**
 - 50% of bankers reported that they were either “Satisfied” or “Very Satisfied” with their examination.
 - 30% of bankers reported that they were either “Dissatisfied” or “Very Dissatisfied” with their examination.

While it is reassuring that half of all bankers surveyed were satisfied with their recent FDIC exams, the fact that 30% were not demonstrates ample room for work.

- **Length of Examinations**

The length of time that examiners were in the bank, on site for the exam, averaged 18 business days, or almost 4 weeks.
- **Subject to Written Agreements**

Bankers surveyed reported that 30% of the banks were under one form or another of written regulatory agreement.

What follows is a series of graphical representations of survey findings looking particularly at some key elements of safety and soundness exams. The focus is on areas where we may find examination excesses, particularly in light of the current point in the financial cycle where the industry is emerging from stress, poised to participate in stimulating economic growth rather than descending into economic and financial retrenchment.

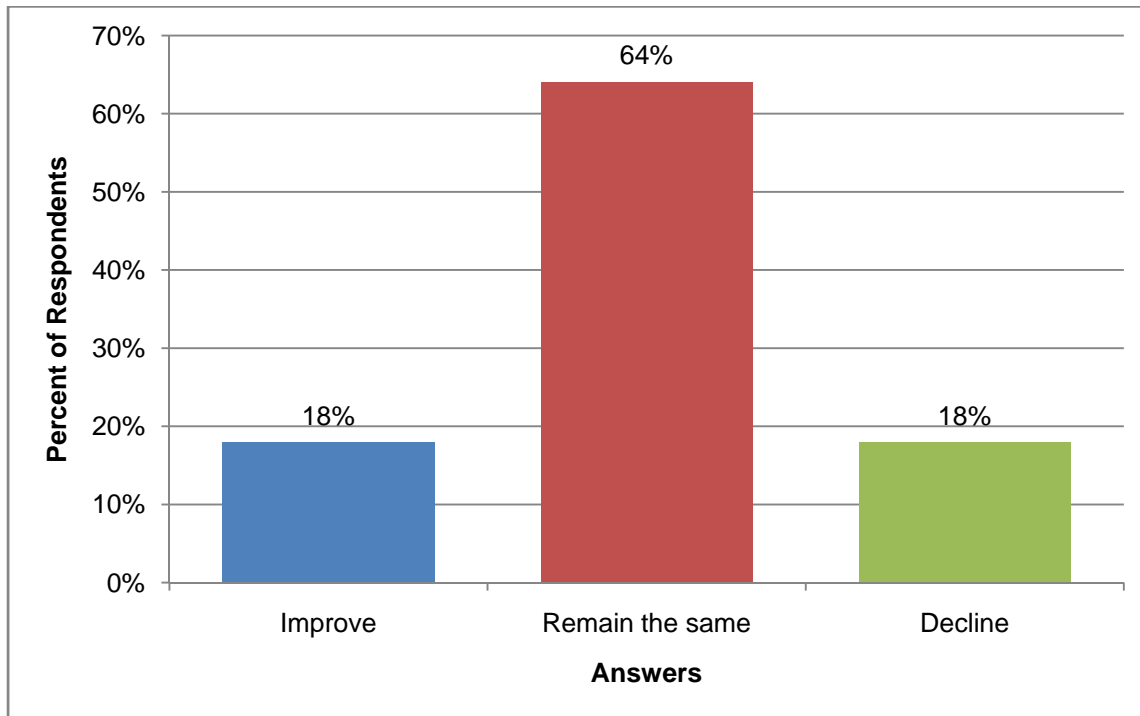
Without revealing what your CAMELS rating was, did your CAMELS rating:

Response Rate: 68% (N=256) Question Type: Choose one

Time period: ThisYear Responses From: 1/1/2011 to 9/27/2011

Total Responses

256

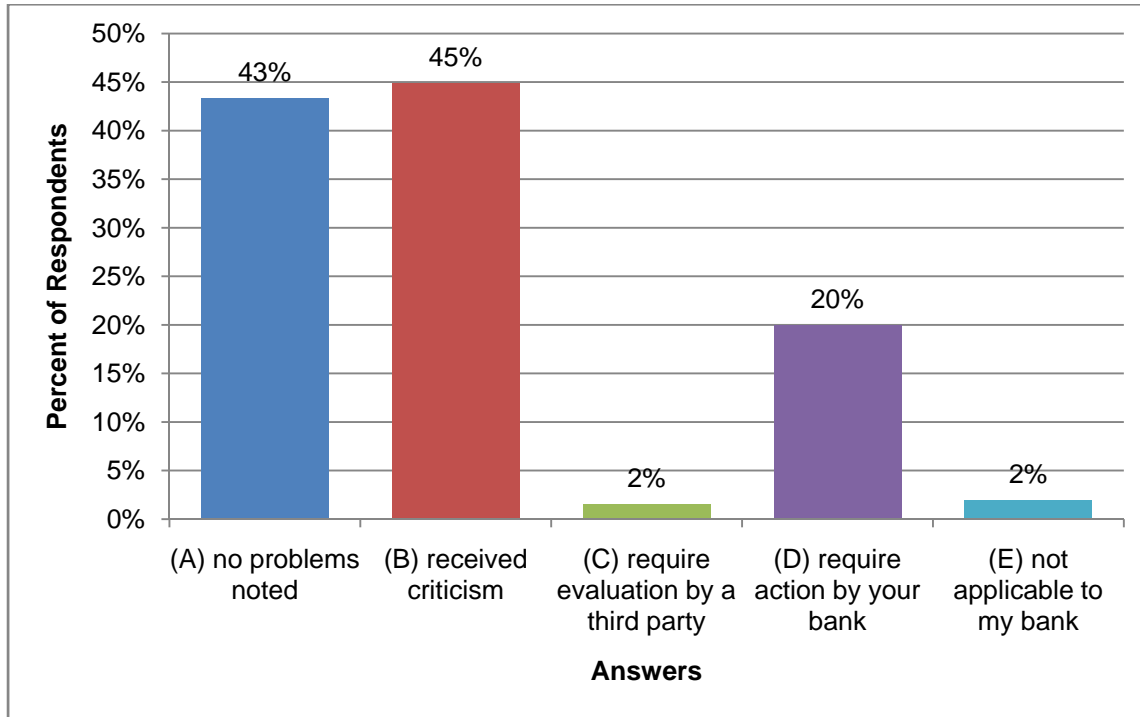


It is certainly reassuring to see that CAMELS upgrades are now matching the pace of CAMELS downgrades.

Adversely classified asset levels

Response Rate: 70% (N=261) Question Type: Choose many

Time period: ThisYear Responses From: 1/1/2011 to 9/27/2011



The results of this question in the survey reveal the continuation of strong examination pressure on bank classification of assets. Bankers, already spurred by the prolonged recession and slow recovery to classify assets, are nevertheless finding in almost two-thirds of their exams regulatory criticism of their loan classifications, with a fifth required to take specific corrective action.

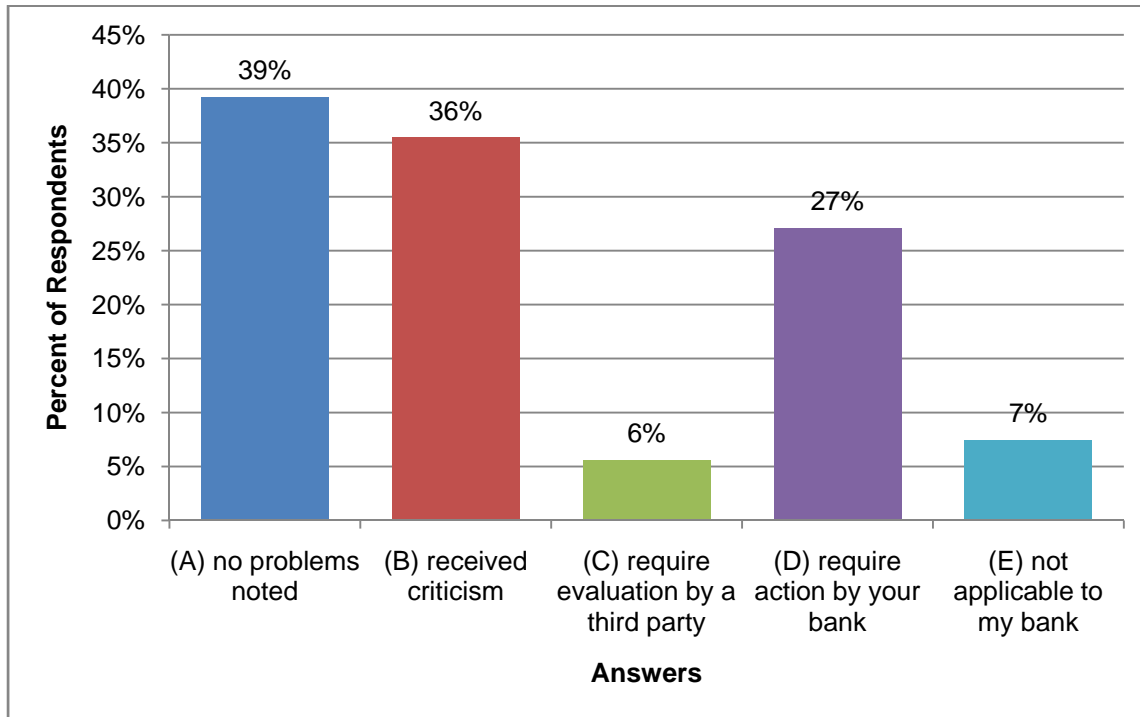
Re HMDA/Regulation C (Home Mortgage Protection Act)

Response Rate: 29% (N=107) Question Type: Choose many

Time period: ThisYear Responses From: 1/1/2011 to 9/27/2011

Total Responses

123



These survey results match banker narratives reporting increased examination attention to HMDA issues. The prominent level of examinations in which banks were required to take specific action will be a source of caution to the entire industry.

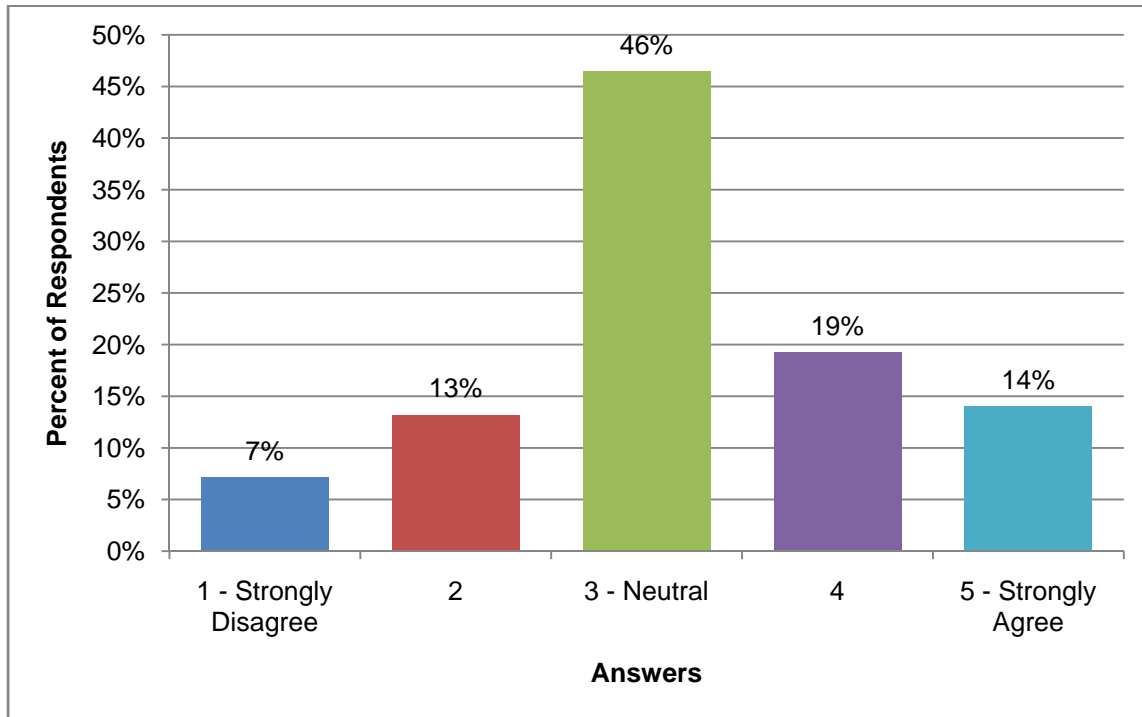
Examiners applied "guidance" as if it were enforceable regulation.

Response Rate: 97% (N=364) Question Type: Choose one

Time period: ThisYear Responses From: 1/1/2011 to 9/27/2011

Total Responses

364



Another complaint frequently voiced by bankers in their narratives points to examiners who treat regulatory "Guidance" with the same force as if it were formal regulation. A third of bankers surveyed agreed that this was a problem in their exams.

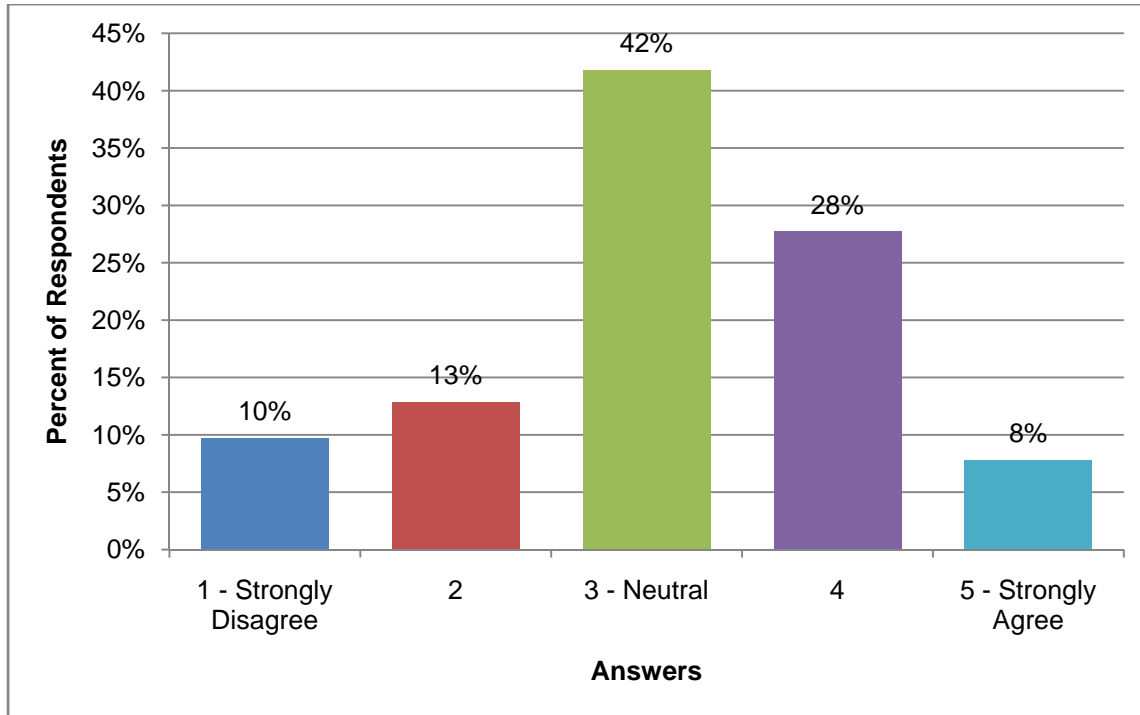
The examination and recommendations enhanced my bank's ability to operate safely and soundly.

Response Rate: 68% (N=256) Question Type: Choose one

Time period: ThisYear Responses From: 1/1/2011 to 9/27/2011

Total Responses

256



The purpose of a good safety and soundness examination is to leave the bank better off, management equipped with information, guidance, and increased awareness of best practices to help the bank be more successful in addressing safety and soundness issues. Fortunately, more than a third of bankers surveyed agree that they got that benefit from their recent exams. Unfortunately that number is not higher, and in fact almost a quarter disagree that they received any such benefit from their recent exams.

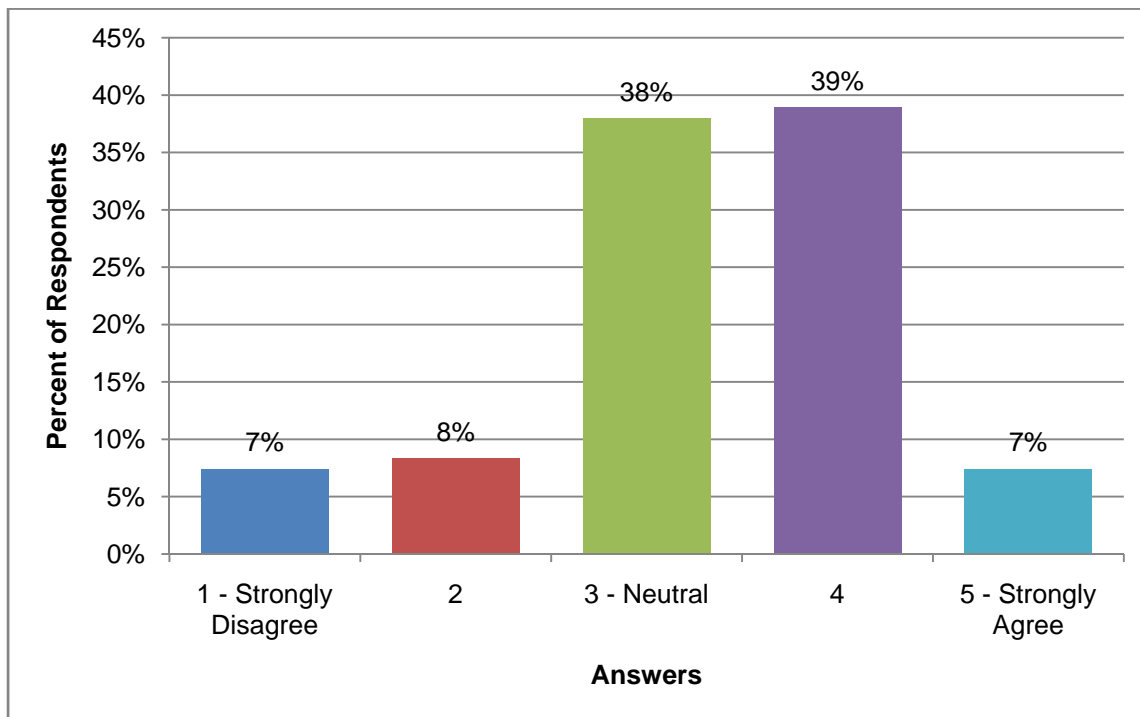
The examination and recommendations enhanced my bank's ability to comply with applicable laws and regulations.

Response Rate: 29% (N=108) Question Type: Choose one

Time period: ThisYear Responses From: 1/1/2011 to 9/27/2011

Total Responses

108



It would seem that at a minimum, examinations should enhance the ability of banks to comply with relevant laws and regulations. Unfortunately, the surveys report only a moderate at best fulfillment of this examination purpose.

What follows on the next two pages are some examples of the many narrative responses provided by bankers with regard to exams. These selected comments—raw and unedited—focus on problem areas that need to be addressed. They are provided to point in the direction of where improvements can and should be made. In all fairness, it is important to note that there were also many comments—albeit a minority of comments—in which bankers expressed satisfaction with their exam experiences.

Selection of Concerns Expressed in Banker Comments on their Recent Examination Experiences

We don't feel that there is anything "fair and reasonable" about the FDIC right now. They are running, and ruining, the banking industry right now and helping thwart any economic growth opportunities.

Focused on resolving or identifying issues that in no way affected the end result of the bank's operation

We are under a non-public order and complied in every way with the order. It still was not lifted. The primary reason for the original order was high brokered deposit level, which has been corrected.

Our capital was criticized although we were substantially above the regulatory requirement with nearly \$0 historical loan losses. When asked where we should be in regard to cap/asset ratio no answer would be given. Therefore if we are being judged and the judge doesn't know the answer HOW CAN I?

The entire exam report is exception based with no acknowledgment of the bank's accomplishments. There was no balance to the report and it was completely slanted in a negative fashion. The examiners on site acknowledged the improvements, but none of that made it into the report.

Examiners in the last two examinations have been critical about commercial loan underwriting policies, procedures, and processes that need to be implemented, completely oblivious that we are already doing what they are demanding.

Corrective actions included adding additional staff and an additional director without any reasoning or support for the additional costs associated with the recommendation.

Management's ability was taken to task as a result of the EIC's irrational downgrading of asset quality which triggered a downgrading of capital and management. We entered into a Resolution agreement and not the MOU the EIC recommended. The subsequent performance of the Bank has proven the EIC's judgments, findings, and report to have been false and misleading. Contrary to the EIC's comments, management dramatically improved capital through earnings and balance sheet strategies, reversed classified assets (as confirmed by a joint visitation six months subsequent to the exam), and maintained a tax equivalent net interest margin in excess of 4.20%.

The personal knowledge of our borrowers and our community was completely discounted in the examination. Loans that were reviewed by outside auditor less than 60 days prior to the examination as a pass credit were graded substandard. Examiners asked if we agreed with their loan classification and we indicated that we did not. Their comment was we have to agree to

disagree, which is fine, but then they utilized their ratings.

There was very little reasoning with the majority of the examination team. We felt that they were adversarial from the moment they hit the door.

I can't think of a single recommendation that could actually improve our operation.

The examiners have an attitude that the banks in general are the "bad guys". I think that this does no good to the overall financial industry. I would really like to see this change to a helpful exam where an exchange of ideas can be present. Now, it is generally accepted that they do not want to talk, only criticize.

The issues criticized in the Report of Examination are so grossly misstated, you cannot get a correct overall picture of the bank's condition. The single greatest improvement would be for the Examiners to simply state the facts and not exaggerate the issue. For example, we did not have good Loan Committee presentation documentation on commercial loans for cash flow in the customers' credit files. All real estate and consumer loans have this documentation in the file. The report reads "Loan officers do not adequately analyze borrowers' repayment ability at origination and at subsequent renewals and often lack current financial information necessary to complete appropriate analysis". It was a simple matter of us not imaging the worksheet that was presented to the Loan Committee. The examiner's comment is totally incorrect.

Understand the risk associated with our bank. That we are a low risk bank, but treated as one with problems

One examiner shared with me that there was a lot of pressure to downgrade credits and grade them adversely.

At times they go deep into small issues that could not harm the bank under any situation. It may be an accounting best practice etc. Overall we benefit from their close review.

Accepted explanations for decisions and strategies in managing bank as logical and practical but always prefaced remarks with "but", "what if" and "don't know how higher ups will accept or view". Did not seem "what if" scenarios presented by examiners were practical, a bit of a stretch. When asked since there was no significant change in our numbers and ratios since our last exam what has changed the reply was "we have".

We had worked with a couple of customers by making some mild modifications on their loans. We were made to write down the loans. On one hand we are encouraged by the government to work with customers in difficult times but when the flag goes up and the examiners are critical of the action. We would have been better off not working with the customer and foreclosing.
