

## Appendix

### Subprime Lending - Interim Examination Procedures

#### April 1999

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The following interim examination procedures address the risks most prevalent in subprime lending. Examiners should tailor them to match the level and nature of a bank’s subprime lending activity and the objectives of the examination. Seldom will this require performing all of these procedures, and their use should be coordinated with other procedures to avoid step duplication and burden. **In performing these and any other examination procedures, examiners should test and verify a sufficient number of underlying transactions to confirm that the bank’s actual practices are consistent with stated policies, practices, and management reports. Significant variances normally indicate a need for closer examination scrutiny.**

These procedures deal primarily with safety and soundness issues; however, consumer compliance issues also have the potential to pose significant risk for banks that engage in subprime lending. For additional guidance, examiners should refer to the *Comptroller’s Handbook for Compliance* booklets “Fair Lending,” “Community Reinvestment Act Examination Procedures,” and “Compliance Management Systems.”

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#### EXAMINATION PLANNING AND CONTROL

1. Review the following documents to identify the preliminary scope and objectives of the examination :
  - a. The supervisory strategy and overall scope memorandum issued by the examiner-in-charge.
  - b. Previous examination findings relating to loan portfolio management, including references to subprime lending activities. Also review management’s response to those findings.
  - c. Work performed by internal/external auditors, loan review, and quality control including reports issued. Review management’s response to significant deficiencies.
  
2. Determine the bank’s level of subprime lending by reviewing portfolios considered by management to be subprime and by determining other loans that may possess subprime characteristics. Consider the following information:
  - a. Loan products offered to subprime borrowers, as well as plans to expand into

- subprime markets.
  - b. Underwriting guidelines and terms.
  - c. Pricing guidelines for various loan products.
  - d. Level of innovation (new terms, products, markets, etc.).
  - e. Markets served and economic conditions.
  - f. Competitive environment.
  - g. Current dollar volume and percent of loan portfolio (managed and booked), by product.
  - h. Historical and anticipated growth.
  - I. Types of marketing and account sourcing.
3. Review the most recent executive management summary report package for subprime lending products. Identify any material changes in the items listed above.
  4. Determine the bank's organizational structure for managing subprime products and activities. Specifically, determine whether management of subprime lending activities is retained in-house or in an operating subsidiary of the bank.
  5. Assess the adequacy of management and staffing associated with subprime lending activities by considering:
    - a. Prior experience with subprime products.
    - b. The type, content, and frequency of training.
    - c. The level of staffing in relation to the volume of loans originated and/or serviced.
    - d. Familiarity with laws and regulations, including processes for remaining current with regulatory changes.
  6. Determine which related activities are outsourced, and obtain a list of vendors used and a summary of the vendor management process. Vendors will typically include computer servicers/processors, brokers, correspondents/partners, marketing firms, credit bureaus, collection firms, etc.
  7. Obtain summaries of any consumer complaint information and outstanding litigation in which the bank is a defendant that relate to subprime lending. Determine whether the summaries point to significant weaknesses in the bank's subprime activities, the underlying causes, and necessary corrective action.
  8. As examination procedures are performed, test for compliance with established policies and procedures and determine the existence of appropriate control measures. Identify any area with inadequate supervision or undue risk.
  9. Obtain the following:

- a. An organization chart for the bank and for subprime lending operations/functions.
  - b. Copies of formal job descriptions for all principal positions in the subprime operation.
  - c. Resumes detailing the experience of principals involved in subprime lending.
  - d. Copies of compensation and incentive programs applicable to subprime management and personnel.
  - e. Copies of reports provided to the board of directors concerning subprime lending since the last examination. Also, obtain copies of all internal and external audit, loan review, and quality control reports dealing with subprime lending since the last examination, along with any management responses.
  - f. Descriptions of all codes and abbreviations used on computer-generated reports.
  - g. A list of board and executive or senior management committees which supervise subprime lending, including a list of members and meeting schedules. Also, obtain copies of minutes documenting those meetings since the last examination.
  - h. Budgets for each subprime lending product at the beginning of the year, and budget revisions as of the examination date.
  - I. A summary listing of each subprime product offered, and a brief description of characteristics and terms, including pricing.
  - j. Copies of marketing plans for each subprime product, and copies of the policies and procedures governing the marketing process.
  - k. Copies of loan policies and procedures for each subprime product. Also, policies and procedures governing all aspects of account management, collections, and the allowance for loan and lease losses.
  - l. A list of scoring systems in use (bureau, custom, and generic), their applications, and copies of their manuals.
  - m. A list of the bank's cobranding partners, affinity affiliations, and any other strategic partnerships. Also, copies of associated contracts.
  - n. The most recent quarter-end allowance for loan and lease loss analysis.
  - o. A list of concentrations of credit.
  - p. Copies of comprehensive profitability reports for each subprime lending product as of the examination date and the most recent year-end.
  - q. Copies of the promotional materials and telemarketing scripts, if applicable, used for marketing subprime products.
  - r. A list of subprime lending portfolios acquired since the last examination, including terms of the purchase. Also, copies of the due diligence reports relating to those acquisitions.
  - s. If applicable, a list of subprime product securitization transactions and copies of each prospectus associated with those offerings.
10. Based on a review of the information above, determine the scope of the examination. Select from the following procedures those steps necessary to meet examination objectives. **Note: examinations seldom require all steps.**

## **STRATEGIC AND BUSINESS PLANNING**

11. Review the bank's strategic or business plan and determine whether:
  - a. The plan is clear, realistic, and advisable given current economic, market, and competitive conditions.
  - b. The plan appropriately recognizes the attendant risks, including credit, transaction, compliance, liquidity, ~~and reputation~~.
  - c. Subprime products offered and planned are consistent with the bank's objectives (including stated risk tolerance), and offered as envisioned by the strategic plan (volume/growth, performance, markets served, etc.).
  - d. Projections and assumptions used are reasonable in light of economic conditions, the competitive environment, management expertise, technological and operational capacity, and capital support.
  - e. Customer relationship planning (customer retention and cross-selling objectives) is adequately considered and addressed.
  - f. Management possesses the necessary expertise to accomplish the plan, and staffing levels and training programs are appropriate considering present and future plans.
  - g. Control systems (risk management, loan review, audit, and quality assurance) are adequately and capably staffed to provide the necessary level of oversight.
12. Review management's budget and capital plan for subprime products; assess reasonableness, trends, and actual performance relative to plan.
13. Evaluate the process for establishing and monitoring specific performance goals and limits. Ensure that the performance analysis entails:
  - a. Comparisons with specific performance goals for account growth, policy overrides, delinquencies, losses, profitability, and other key measurements for the subprime portfolio as a whole and broken down by product.
  - b. A reporting process that provides sufficient information to monitor actual portfolio/product performance and track results against goals.
14. Determine senior management's plans for filling management and staff vacancies.

## **POLICIES AND PROCEDURES**

15. Assess the adequacy of the bank's lending policies and procedures used to manage subprime portfolios. Pay particular attention to any changes since the last examination.

Review policies to ensure guidance exists for:

- a. Lines of authority.
  - b. Underwriting limits.
  - c. Concentrations of credit (e.g., geographic, product type, broker, source of recourse).
  - d. Permissible types of loans.
  - e. Underwriting criteria (including cash flow standards, scorecard cutoffs, etc.).
  - f. Required/eligible collateral.
  - g. Collateral valuation guidelines/methods.
  - h. Exception processes.
  - I. Credit grading (“A,” “B,” “C,” etc. paper).
  - j. Cure programs (e.g., re-agings, extensions, renewals, rewrites).
16. Review the bank’s process for distributing lending policies and procedures, and for disseminating revisions. Determine whether the policies and procedures are readily available to and uniformly understood by all affected personnel. Consider whether management has satisfactorily addressed training needs which may arise as a result of policy revisions.
17. Determine the level of adherence to current policies and procedures, and the adequacy of exception reporting.
18. Determine whether policies are reviewed at least annually in light of the portfolio’s performance or changes in the bank’s strategic direction.

## LOAN PRODUCTION

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In conducting the following examination procedures, focus on the adequacy and completeness of the bank’s processes. **Assess the adequacy of the bank’s processes for monitoring/analyzing performance against expectations and effecting change based upon that performance.** In addition, evaluate the level of integration to ensure that processes associated with the various functions (strategic planning, product development, acquisition/marketing, account management, customer service, collections, etc.) are appropriately linked.

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### Marketing Subprime Loan Products

19. Review the bank’s marketing process and assess the:

- a. Adequacy of the structure, management depth and expertise, and staffing levels in the marketing area.
  - b. Consistency of marketing plans with the stated direction and goals of the subprime unit and the bank as a whole.
  - c. Controls and reporting in place to monitor marketing plans and activity.
  - d. Familiarity with products and markets served.
  - e. Functions performed in-house versus those outsourced (see “Vendor Management”).
  - f. Adequacy of the new product/solicitation development and proposal process, including whether:
    - All necessary functions are represented in the development/approval process;
    - Presentations are complete;
    - Projections/assumptions are accurate;
    - The process provides for adequate testing and analysis;
    - Necessary control functions, systems, MIS, and reporting are considered; and,
    - Program approval requirements are adequate.
  - g. Use of application scoring models or other targeting techniques (ensure consistency with applicable consumer compliance regulations).
  - h. Accountability for mismanaged marketing initiatives.
20. If the bank maintains a data warehouse, assess its uses, the process to ensure the accuracy of the information maintained, and the controls in place to prevent unauthorized use/access.
  21. Review copies of the reports generated by and used within the department to control and monitor marketing initiatives. Assess for adequacy and accuracy.

### **Underwriting Subprime Credits**

22. Determine whether management and the board have adopted written policies that:
  - a. Establish procedures for soliciting and reviewing loan applications.
  - b. Define qualified borrowers, including credit grades with minimum and maximum criteria.
  - c. Establish credit granting and exception approval authority.
23. Assess the reasonableness of underwriting criteria (including the basis for key cutoffs, dollar limits, and ratios used), and the process for ensuring adherence thereto.

24. Assess the process for proposing and implementing changes to the bank's underwriting criteria.
25. Evaluate whether underwriting activity and portfolio growth are consistent with strategic and business plans.
  - a. Review the subprime products offered and their terms.
  - b. Determine the bank's target markets for each product offered. Determine whether the target markets have changed since the last examination and, if so, why.
  - c. Review the breakdown of new loan sources from the current and previous two years.
26. Review delinquency and loss reports on a product-by-product basis and by acquisition channel.
27. Review the bank's underwriting process to determine the level of automation, use of credit scoring models, and the override/exception process.
28. Assess the adequacy of exception reporting, and determine the appropriateness of the bank's response to significant variations. As appropriate, determine whether the level of exceptions results in higher levels of delinquencies and losses, indicative of weaknesses in the underwriting process.
29. Assess the adequacy of the initial loan set-up process to ensure that loans are entered into the system in a timely manner. If not, determine causes and assess impact.
30. Determine the adequacy of the bank's verification procedures, and ensure that, at a minimum, residence, employment, and income are routinely confirmed for subprime borrowers.
31. Review a sample of loans (including new accounts) originated in the past month. Evaluate whether loans are consistent with current underwriting guidelines, and whether exceptions and overrides are noted and monitored in accordance with policy.
32. Evaluate the adequacy of systems, MIS, and reporting, and determine that management monitors appropriate key measurements (e.g., approval/override rates, etc.).

*Wholesale:*

33. Determine whether the bank has guidelines and governing contracts for purchasing subprime loans originated elsewhere; assess the reasonableness of those guidelines.

Considerations should include the adequacy of processes in place to ensure that purchased loans are consistent with the bank's underwriting criteria, and the bank's ability to reject loans which do not meet its criteria.

34. Assess the adequacy of the process used to "approve" brokers and other origination sources. (See also "Vendor Management" procedures.) Be alert to any insider/affiliate relationships, concentrations, and originators' ability to perform on recourse commitments, etc.

### **Subprime Account Management**

35. Determine the extent of strategies and criteria for various account management functions, including:
  - a. Line increase/decrease programs (including "graduation" programs).
  - b. Customer service re-ages, extensions, and renewals.
  - c. Collateral release programs.
  - d. Payment alternatives (VISA/MasterCard, automatic debit, etc.).
  - e. Retention programs.
36. Evaluate the processes for establishing, monitoring/analyzing, and effecting change to each program/strategy. Assess the adequacy of MIS and reporting with respect to providing accurate and timely information of program/strategy performance.
37. Select a sample of accounts to evaluate the effectiveness of major account management programs. The sample should include:
  - a. Borrowers in each major account management strategy or initiative (line increase/decrease programs, attrition management, etc.).
  - b. A number of accounts that were on the past-due report three months earlier. The analysis should track resolution and evaluate the effectiveness of account management strategies that were applied to these accounts.
38. Assess the adequacy of policies and procedures and ensure that they prohibit the following:
  - a. Payment holidays, skip-a-pays, or similar programs where a customer is given the option to forgo one or more payments due.
  - b. Pay-aheads, where a payment that exceeds the contractual amount due is applied in such a way that it eliminates the need to make monthly payments until the over-payment is exhausted.
  - c. Over-limit authorizations on open-end subprime accounts for other than



emergency purposes.

## **Collection of Subprime Loans**

39. Assess the structure, management, and staffing of the collections department by:
  - a. Reviewing the organizational chart and discussing staffing plans with senior management.
  - b. Reviewing the experience level of senior managers and supervisors.
  - c. Discussing with management how supervisors manage their collectors and evaluate the ratio of collectors to supervisors.
  - d. Determining how often supervisors review collectors' performance and the criteria used for evaluation.
  
40. Assess the appropriateness of management's collection strategies by:
  - a. Reviewing the method management uses to ascertain the effectiveness of its collection strategies.
  - b. Determining who has authority to revise collection strategies.
  - c. Evaluating how accounts are distributed to the collectors.
  - d. Reviewing the number of accounts each collector handles on average. Analyze how this level is established and determine whether it is reasonable and appropriate.
  - e. Establishing whether the bank uses behavior scoring or any other predictive techniques to assist in the collection of accounts. If so, determine:
    - Who developed the scoring model or system.
    - How the collections department uses the model or system.
    - How often the models are validated and by whom.
  
41. Evaluate various cure programs used, such as re-aging, fixed payment, Consumer Credit Counseling Services, and forgiveness. Specifically:
  - a. Determine the programs in place and planned through discussions with management.
  - b. Evaluate the policies and procedures and verify that management adequately monitors and analyzes the performance of each program.
  - c. Assess the current and potential impact of such programs on reported performance and profitability, including allowance implications.
  
42. Assess the adequacy of the automated systems used by the bank to collect delinquent

accounts and discuss these systems with management. Determine:

- a. Which automated collections systems the bank uses, how each system is used, and key MIS reports generated by and for each system.
  - b. That the systems provide sufficient data to allow collectors to make appropriate decisions.
  - c. Whether systems generate a sufficient audit trail.
  - d. Whether the bank has contingency plans for a temporary power outage or a disaster and that the plans are tested regularly.
  - e. How the power-dialing system (if such a system is used to contact delinquent account holders) routes “no contact” accounts.
43. Evaluate the adequacy of the bank’s charge-off policy by:
- a. Ensuring that it meets the FFIEC Uniform Retail Credit Classification Policy.
  - b. Reviewing the processor’s user manual to verify that the charge-off parameters correspond to those described in the charge-off policy. (If not, discuss the differences with management and request appropriate corrective action.)
  - c. Determining how accounts scheduled for charge-off are loaded into a charge-off queue or other system for loss. Specifically:
    - Determine the circumstances, if any, which will delay an account charge-off.
    - Determine whether losses are recognized daily, weekly, or monthly.
44. Determine that collection practices comply with laws and regulations, especially the Fair Debt Collection Practices Act.
45. ~~Assess whether the bank has considered reputation risk in light of its collection practices and whether its practices appear to pose significant reputation risk.~~

## **Pricing**

46. Determine the bank’s process for pricing subprime products, including the use of risk-based pricing. Also assess the adequacy of the review process for pricing strategies. (Note: Pricing includes interest rates and fees.)
47. Review and discuss pricing models used by the bank. Determine who developed them, the process used, and how they are maintained.

48. Review the adequacy of the analysis and documentation supporting pricing decisions and models. Determine that assumptions used are reasonable and complete, and that all relevant income and expense categories are appropriately captured.
49. Determine how management evaluates competitor pricing and incorporates that information into its pricing scenarios; assess the adequacy of the process.

### **Profitability**

50. Review the monthly financial information provided to senior management, and evaluate its usefulness and accuracy.
51. Assess the adequacy of the bank's process for projecting and tracking profitability by product. Consider whether the bank's systems support and analyses incorporate profitability by:
  - a. Product.
  - b. Credit risk grade.
  - c. Vintage.
  - d. Marketing initiative.
  - e. Source of account acquisition.
  - f. Other segmentations, including account-level profitability.
52. Review the most recent fiscal year-end and current year-to-date financial information for each subprime product, and compare to budgets and forecasts; discuss any significant variances with management.
53. Determine the type and level of fee-based income received (membership, late, over-limit fees, etc.), and review trends.
54. If the bank uses pricing promotions (rate sales, teaser rates, etc.), assess the adequacy of the bank's systems for tracking and the process for projecting and monitoring impact.
55. Review subprime profitability, assessing the impact of product performance, plans, and modifications; discuss with management.

### **RISK MANAGEMENT**

56. Review the role of the risk management function in the various stages of the subprime lending process. Consider whether the structure, expertise, and staffing levels support fulfillment of that role.

57. Ensure that the policy/procedure and new product development processes require approval and sign-off by risk management prior to implementation. Also, determine that risk management has an acceptable process for developing and implementing necessary control and monitoring functions before substantive changes are made.
58. Assess the process used by risk management to measure and monitor risk by product, vintage, solicitation, and account source. Ensure that a process exists to report problems to senior management and that, if problems are noted, corrective action is promptly taken.
59. Assess the accuracy and adequacy of MIS and reports used in the function.
60. Determine the extent of the analysis performed with respect to market, competitive, legislative, and other external factors, and assess the adequacy thereof (focus, scope, and frequency). Discuss with management the use of this information.
61. Assess the qualifications of personnel engaged in risk management.

### **Scoring Models**

62. Review the bank's use of modeling and credit scoring. Detail the types of models/scorecards used (e.g., generic/custom, vendor, etc.), by application, and determine whether the development process is consistent with the bank's risk appetite and desired levels of subprime loans. Moreover, evaluate the ongoing monitoring and maintenance process in view of the portfolio's performance.
63. Determine that all scorecards are used for purposes consistent with the development process/populations. If not (e.g., applied to an entirely different product, new/unproven geographic area, etc.), assess the ramifications.
64. Review the documentation supporting the bank's scoring models to:
  - a. Ensure the developer warrants that the scoring models are empirically derived and statistically sound.
  - b. Ensure the factors and customer characteristics are monitored periodically to determine whether they effectively predict credit performance.
  - c. Determine whether the credit scores permit the bank to predict overall risk and the potential impact on collection activities.
  - d. Determine whether the models consider compliance with consumer laws and regulations. Refer any consumer compliance concerns to the examiner-in-charge and OCC compliance examiner.

65. Review management of the bank's scoring systems to ensure that:
- a. Systems continue to reflect current underwriting standards and risk parameters.
  - b. Management maintains a portfolio chronology log to record significant events related to the credit acquisition process for each subprime portfolio (major economic events/trends, new products or marketing programs, changes to underwriting standards, new customer bases/markets, etc.).
    - If not, discuss the reasons with management and recommend retention of a log.
    - If yes, review the log and discuss any significant changes with management.
  - c. The scorecards are revalidated as necessary. Also, review the report of the last validation.
  - d. Management is provided with and analyzes the front- and back-end MIS reports that are recommended by the vendor (such as population stability, characteristics analysis report, and delinquency distribution reports).
  - e. Scoring systems are supervised and maintained in accordance with vendor-provided specifications and recommendations (as specified in the scoring manual).

## **CONTROL FUNCTIONS**

### **Quality Control and Audit for Subprime Operations**

66. Review control processes in place (frequency, scope, accuracy, and meaningfulness of conclusions), and assess for adequacy. In addition, assess the process for tracking management responses to audit and quality control findings.
67. Determine whether the bank employs quality control programs such as re-underwriting, which provide for independent verification of customer information and collateral valuation.
68. Determine the adequacy (substance and timing) of management follow-up on audit and quality assurance findings.
69. Assess the appropriateness of the measures employed by audit and quality assurance to accurately convey the state of control processes (risk weighting, calculation dilution, etc.).

70. Evaluate the adequacy of staffing and the qualifications/experience levels thereof; determine the reasonableness of reporting lines.

## **Vendor Management**

71. Review the vendor management process to ensure that:
- a. Management maintains a current and complete list of all vendors.
  - b. Vendors are actively managed from both relationship and control standpoints.
  - c. The control process includes:
    - Maintenance of current and complete contracts (inclusion of appropriate clauses, receipt of audit reports, financial statement requirements, etc.; monitoring for adherence to terms/performance guidelines; information for renegotiation).
    - Annual financial analyses, at a minimum, of vendors deemed critical to the bank's operations.
    - Review of vendor audit reports.
    - Performance of quality assurance reviews (which monitor adherence to specified policies and procedures).
    - Development of necessary controls (e.g., restricting access to bank information).
    - Periodic performance of competitive/alternative analyses (including contingency planning).
  - d. Management understands its legal responsibility arising from the compliance risks associated with outsourcing.
72. Specifically determine whether vendor contracts appropriately address the issue of data ownership.
73. Ascertain the quality of the MIS/reporting available for managing vendors.

## **OTHER**

### **Allowance for Loan and Lease Losses**

74. Evaluate whether the board-approved allowance for loan and lease loss policy recognizes subprime lending portfolios as a specific risk exposure. Determine whether:
- a. The bank has a written description of the process and methodology used to

- determine the adequacy of the allowance.
  - b. The analysis documents the factors considered in evaluating subprime portfolios and lending practices.
  - c. Internal charge-off policies are consistent with the FFIEC's Uniform Classification Policy for Retail Credit.
  - d. Procedures exist to ensure that loans are charged off in a timely manner and in accordance with established policies.
75. Review the bank's most recent quarterly evaluation of the allowance, evaluate whether :
- a. The analysis segments subprime lending portfolios by major risk exposure such as specific product, origination channel, vintage, risk grade, or other grouping deemed relevant.
  - b. The analysis considers factors affecting subprime portfolios and lending practices, including changes in underwriting standards, cure programs, foreclosure and repossession practices, or other collections procedures.

### **Securitization Activities**

76. Determine whether subprime lending portfolios are funded through securitizing the receivables.
77. Evaluate the performance of asset-backed securities supported by subprime loans. Determine whether:
- a. Performance trends are stable, improving, or deteriorating.
  - b. Early amortization or other credit enhancement triggers are nearing their set-off points. If so, discuss with management the potential cash flow ~~and reputation risk~~ issues.
78. Discuss with management how the bank determines accounting treatment for securitized assets. Review the bank's process for valuing residual assets associated with securitized subprime portfolios. Determine whether:
- a. Assumptions (prepayment speeds, loss forecasts, and discount rates) are reasonable and conservative.
  - b. The bank uses the cash-out method for valuing cash flows.
  - c. The bank uses static pool cash collection analysis to support cash flow assumptions.
79. Determine whether the bank routinely repurchases past-due loans from securitized asset pools. If so, the examiner should investigate the risk-based capital and recourse

implications with examiners performing the review of capital adequacy.

(For further guidance on securitization activities, examiners should refer to the comprehensive procedures in the “Asset Securitization” booklet of the *Comptroller’s Handbook*.)

## **Investor Reporting**

80. Review the list of investors or third parties for whom the bank services loans.
  - a. Determine whether a written servicing contract is in place for each third party.
  - b. Review a sample of the servicing contracts to determine investor servicing requirements, funds remittance schedules, contractual servicing fees, guarantee fees, and servicer representations and warranties.
81. Track the flow of funds from the investor accounting cutoff date, the remittance of funds to investors and security holders, and the recognition of servicing revenue.
  - a. Determine whether loan delinquencies have prompted the use of corporate funds to meet remittance requirements to investors and security holders.
  - b. Determine whether the bank appropriately recognizes servicing revenue.
82. Review a sample of investor account reconciliations.
  - a. Verify that each investor account is reconciled at least monthly.
  - b. Determine whether a supervisor reviews and approves the reconciliations.
  - c. Determine whether the bank resolves outstanding items in a timely manner.
  - d. Determine whether the bank reviews the aging of unreconciled items regularly and charges off uncollectible balances.
83. Determine whether monthly investor reports are accurate and promptly submitted.

## **EXAMINATION CONCLUSIONS**

84. Provide the examiner-in-charge with conclusions regarding:
  - a. Quantity of risk, including:
    - Credit quality of the subprime portfolios, including trends in outstandings, delinquencies, and losses.
    - Compliance with established guidelines.
    - Compliance with applicable laws, rulings, and regulations.



- b. Quality of risk management, including:
- Adequacy of policies and underwriting standards.
  - Adequacy of processes, including planning.
  - Management's ability to conduct its retail lending in a safe and sound manner.
  - Adequacy of control systems, including loan review, audit, and management information systems.
- c. Bank management's response to recommendations.
- d. What the OCC needs to do in the future to effectively supervise the bank's subprime loan products/portfolio; include supervisory objectives, timing of activities, and staffing requirements.
85. Determine how any risks identified when performing the above procedures will affect aggregate risk and the direction of risk. Examiners should refer to guidance provided under the OCC's large bank and community bank risk assessment programs.
86. Discuss findings with management, including conclusions regarding applicable risks.
87. In consultation with the examiner-in-charge, determine whether the risks identified are significant enough to merit bringing them to the board's attention in the Report of Examination. If so, prepare items for inclusion under the heading "Matters Requiring Board Attention."
88. As appropriate, prepare other comments for inclusion in the Report of Examination.
89. Prepare a memorandum or update the work program with any information which will facilitate future examinations.
90. Update the ongoing supervisory record and any applicable Report of Examination schedules or tables.
91. Organize and reference working papers in accordance with OCC guidance.