

Regulatory Bulletin

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Examination Handbook

Summary: This Regulatory Bulletin introduces the new Office of Thrift Supervision *Examination Handbook*. The *Examination Handbook* is a comprehensive handbook, combining safety and soundness and compliance guidance.

For Further Information Contact: Your Office of Thrift Supervision (OTS) Regional Office or the Thrift Policy Division of the OTS, Washington, DC. You may access this bulletin and the Examination Handbook at our web site: www.ots.treas.gov.

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Introduction

The Office of Thrift Supervision is introducing the new *Examination Handbook*. The *Examination Handbook* is a comprehensive handbook that combines safety and soundness and compliance guidance.

This new Handbook will eventually replace the Thrift Activities (TAH) and Compliance Activities Handbooks (CAH). We will retain the general layout of the handbooks with a chapter for each CAMELS component and a chapter for Compliance and CRA.

We plan to issue Administration and Management sections first. With the introduction of the Examination Handbook, we are issuing the following sections:

- 010 – Handbook and Program Use
- 040 – Examination Systems
- 060 – Examination Scheduling, Scoping, and Management
- 070 – Ratings: Developing, Assigning, and Presenting
- 310 – Oversight by the Board of Directors
- 330 – Management Assessment
- 410 – Financial Records and Reports
- 1100 – Compliance Oversight Examination Program

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We are also adopting a new, computer friendly format for the Examination Handbook. The handbook sections will be in a one-column format and will link to the attached pieces, such as the Examination Program, Questionnaire, and Appendices. As we issue new sections, we will post them to the OTS website under *Examination Handbook*. We will delete old TAH and CAH sections as we issue new sections of the Examination Handbook. The OTS website includes a free service that provides subscribers with an e-mail alert when new material is posted to our public Internet site. To subscribe to this service, go to <http://www.ots.treas.gov/subscription>.

Comprehensive Examinations

OTS's overall approach to a comprehensive examination is to combine examination processes wherever possible. For example, when scoping the examination and conducting management interviews the examiner covers both the safety and soundness and compliance areas. Whenever possible, the EIC will eliminate redundancies in the review process and assign one examiner to review of a particular area. We included several new work papers in Section 060, Examination Scheduling, which will assist with this review. OTS's goal is to achieve timely, efficient, and risk-focused examinations while reducing burden on our savings associations.

When assigning ratings, the examiner's assessment and rating of the management component must reflect the board of directors and management's ability and effectiveness in managing all aspects of an association's operations and risks, including the compliance management function. Section 070, Ratings, clarifies that the management component cannot receive a rating any higher than a 2 when compliance is rated 3, which identifies a "less than satisfactory compliance position."

Compliance Oversight Examination Program

The Compliance Oversight Examination Program is a new section that will be the first section in the Compliance chapter. Examiners will use the top-down, risk-focused approach in the compliance oversight examination program. This generally involves the comprehensive review and analysis of internal procedures, monitoring, and self-assessment programs. It also affords flexibility to focus on priority areas.

This handbook section addresses the "Working SMAART" concept introduced in the Self-Assessment Guide. As we begin revising sections of the Compliance chapter, we will categorize the Examination procedures into three levels of review:

- Level I is an operation-focused review of the association's self-assessment or audit. This is the first "A" in Working SMAART.
- Level II is an independent evaluation of the association's compliance management program and whether it adequately fulfills the remaining SMAART criteria: Systems, Monitoring, Accountability, Response, and Training.
- Level III is the appropriate use of FFIEC and/ or OTS examination programs. Examiners may use their judgment in selecting the procedures that will address their concerns.

Savings association management should tailor the SMAART framework to their association's size, business strategy, operational complexity, and risk profile. While self-assessments or internal reviews may be simple or complex, depending on the needs of each association, we feel that performing a self-assessment or internal review is a primary and prudent risk management tool. If you do not currently perform a self-assessment or internal review, you may be subject to additional examiner review time. Additionally, ex-

aminers may criticize the lack of a self-assessment or internal review if it results in systemic or repeated non-technical compliance violations.



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Managing Director

Examinations, Supervision, and Consumer Protection