From the Examiner's Desk…
The FDIC's Relationship Manager Program: A Win/Win Situation

*This regular feature focuses on developments that affect the bank examination function. We welcome ideas for future columns, and readers can e-mail suggestions to **SupervisoryJournal@fdic.gov.***

Consider this scenario: Every FDIC-supervised institution has a local point of contact, a Relationship Manager who is familiar with the institution's financial condition, operations, management team, and local economic environment. Bank management meets with its Relationship Manager, who is also available by phone or e-mail to get answers to questions about regulatory issues or examination scheduling. This scenario is happening right now. The agency implemented the Relationship Manager Program on October 1, 2005, to further strengthen relationships between the FDIC and bank management and continue to improve the effectiveness of the supervisory process.[1]

FDIC Pilot: Building a Successful Program

The FDIC's Division of Supervision and Consumer Protection piloted the Relationship Manager Program with 390 banks in eight states across the country beginning in April 2004. Coordination with State banking authorities is always critical; consequently, the FDIC sought and received cooperation from each State banking department involved in the pilot (see inset box on next page). The pilot addressed three key principles of the Program: (1) a Relationship Manager is the local point of contact for each FDIC-supervised institution; (2) supervisors have the flexibility to conduct examination activities over the examination cycle;[2] and (3) a Risk Management Consolidated Report of Examination will cover Risk Management, applicable specialty areas, and, if the findings are significant, Compliance and the Community Reinvestment Act (CRA). As expected with any pilot program, some adjustments were necessary (as explained below). Feedback was positive, and the pilot was continued until the Program was implemented nationwide in October 2005.

Relationship Managers: Key to the Success of the Program

Commissioned examiners[3] are assigned as the Relationship Manager for four to six banks, and their role is paramount in the Program. (See inset box "Perspectives from an FDIC Examiner" for the views of one examiner who is now a Relationship Manager.) The Relationship Manager has three primary responsibilities. First, the Relationship Manager is the institution's local point of contact —

[1] See FIL-98-2005: Financial Institution Letter "Relationship Manager Program Enhancements to the Supervision Program" (October 6, 2005). This FIL states that (1) all FDIC-supervised institutions will have an assigned local point of contact; (2) the Relationship Manager Program will enable examiners to conduct interim examination activities; (3) financial institutions will receive a Report of Examination that incorporates all Risk Management and specialty examination findings during an examination cycle; (4) separate Compliance/Community Reinvestment Act frequency requirements and reports will continue to be issued, but examination activities will be closely coordinated with other supervisory activities; and (5) separate examination cycles for specialty examinations are now integrated into the Risk Management examination cycle.

[2] 12 USC 1820 (d) requires FDIC-insured institutions to be examined every 12 or 18 months, depending on size and financial condition. This 12- or 18-month period is referred to as the institution's "examination cycle."

[3] FDIC examiners must complete a training program consisting of on-the-job training, classroom sessions, and a technical evaluation. The commissioning process generally takes three years, and Compliance and Risk Management examiners can begin serving as Relationship Managers approximately one year after being commissioned.

Coordination with State Banking Departments: A Key Aspect of the Relationship Manager Program

The FDIC is the primary Federal regulator for State-chartered nonmember banks, and supervision of these banks is a partnership effort between the FDIC and the respective State banking departments. For the most part, examinations are conducted on a rotating basis by the FDIC and the State. Agreements between the FDIC and each State banking department specifying examination responsibilities are in place, and financial institutions will continue to be supervised according to these agreements.

Communication and coordination with State authorities was critical in the development of the Relationship Manager Program. To facilitate secure communication with the State banking departments, the FDIC worked with State banking supervisors to develop technological solutions that foster the sharing of confidential information. The importance of this secure network to an initiative that relies on coordination between the FDIC and the State banking authorities cannot be overstated. To facilitate communication with State authorities, copies of supervisory plans will be provided, and State examiners will continue to have access to FDIC work papers. Relationship Managers will contact State officials according to the protocol established by the FDIC Regional Office and that State.

a direct resource for bank management's questions about regulatory issues or new bank products. During the pilot, bankers reported that their Relationship Manager generally understood their bank's operations and could provide valuable supervisory insights.

Second, the Relationship Manager develops a supervisory plan at the beginning of the examination cycle which includes a risk assessment of the institution and a supervisory agenda and timeline. This plan incorporates Risk Management, Compliance, and CRA, as well as specialty areas such as Information Technology, Trust, Registered Transfer Agent, Municipal Securities Dealer, and Government Securities Dealer. The plan establishes the overall supervisory approach for the institution and documents examination and off-site monitoring activities scheduled during that cycle. Most banks are examined on a rotating basis by the FDIC and the chartering State authority. During the State authority's examination cycle, the Relationship Manager will prepare an abbreviated supervisory plan listing the State's proposed examination date and any off-site monitoring events scheduled during the period. In cases where the State authority does not examine for Bank Secrecy Act (BSA) compliance, the supervisory plan will address plans for the FDIC to conduct a separate BSA/Anti-Money Laundering examination.

Finally, Relationship Managers participate in examinations of their assigned institutions. Generally, the Relationship Manager will be the examiner-in-charge for his examination discipline (such as Risk Management or Compliance/CRA) or will serve in a prominent role and work closely with the examination staff. However, if the Relationship Manager is not available, another commissioned examiner could serve as the examiner-in-charge, with the Relationship Manager participating in the examination to the extent possible. During the pilot, examiners and bankers recognized the benefit of the Relationship Manager serving as the examiner-in-charge or, at the very least, in an important role during the examination. Mark Yates, Field Supervisor for the FDIC's Columbus, Ohio, Field Office, stated that having the Relationship Manager participate in the examination "provided for the Relationship Manager's continued awareness of the institution and resulted in a more effective and better focused examination." However, having a different examiner serve as the examiner-in-charge may foster objectivity if the Relationship Manager has dealt with the bank for some time. Examiner independence is

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crucial, and field supervisors will rotate examiner-in-charge assignments periodically to ensure fair and objective treatment for all institutions.

Flexibility and Communication Improve the Supervisory Process

The Relationship Manager Program does not change examination procedures. Rather, it promotes flexibility in, and emphasizes coordination of, examination activities and strengthens lines of communication between bankers and the FDIC. During the pilot, examination staff experimented with conducting examination activities throughout the examination cycle instead of relying on a single point in time examination at the end of the cycle.

Under this approach, the examiner does not have to wait until the next examination begins to assess management's response to significant examination concerns and issues, resulting in more timely communication about areas of regulatory concern. Performing certain examination activities throughout the cycle also helps the FDIC use personnel and respond to bankers' needs efficiently. For example, field supervisors periodically receive banker requests to reschedule an examination owing to a computer conversion or other planned events that significantly impact operations. This flexible examination approach facilitates these requests by allowing interim examination activities to be conducted rather than having to reschedule an entire examination.

Conducting interim examination activities was found to be especially beneficial in large, complex institutions. For example, a partial loan review was conducted at an institution that purchases large pools of problem loans. The examiners conducted their review 60 to 90 days after the pools were purchased, allowing for the seasoning of the loans and therefore a more effective review of the quality of the portfolio. Although this flexibility remains in the Program, this approach will not be the norm. During the pilot, we determined that for the vast majority of institutions, particularly small, less complex institutions, a point in time examination remains the most efficient approach.

The Relationship Manager's knowledge of a specific bank's operations also should improve the overall effectiveness and efficiency of the FDIC's supervision program. For example, if a bank reports significant quarterly growth in deposits, the Relationship Manager may have information about a new product that the bank was developing, and, as a result, only limited supervisory follow-up may be necessary. This follow-up may present an opportunity for the Relationship Manager to call on bank management to review the product's success or discuss potential regulatory considerations that may be prompted by the deposit growth.

Risk Management Consolidated Report of Examination: A Comprehensive, Consistent Message

The use of one consolidated Report of Examination for Risk Management, specialty examination areas, and Compliance/CRA was tested during the pilot. Based on the success of the pilot, separate reports for specialty areas — such as Information Technology, Trust, Government Securities Dealers, and Municipal Securities Dealers — generally no longer will be completed; examination findings for specialty areas now will be detailed in the Risk Management Consolidated Report of Examination (Consolidated Report). However, incorporating Risk Management and Compliance/CRA

Perspectives from an FDIC Examiner

As a commissioned Risk Management examiner, I have been involved in the Relationship Manager Program since April 2004. I was initially assigned a portfolio of six banks. One of my first duties as a Relationship Manager was to contact each bank, inform management that I was now the local point of contact, and describe the Program and its benefits. Initial reaction from bankers was favorable, and the Program continues to be well received. When asked if "having a Relationship Manager as the designated local point of contact improves the relationship between the institution and the FDIC," 69 percent of responding bankers strongly agreed and 28 percent somewhat agreed.

Bankers particularly like the opportunity to address their concerns to someone familiar with their unique situation, and, in fact, many bankers frequently call and e-mail me. Some questions are outside my area of expertise; however, I identify a subject matter expert and ensure the bank's questions are answered. When bankers feel comfortable asking questions, the potential for problems to occur down the road is minimized.

The development of supervisory plans requires strong communication with examiners working in other disciplines. As a result, information sharing between myself and Compliance examiners has increased significantly. For example, a Compliance examiner recently finished an examination at one of the banks in my portfolio. He informed me that the Compliance examination revealed significant violations of Part 339 — Flood Insurance, which resulted in proposed civil money penalties. The information helped me assess the institution's overall risk profile before I conducted the Risk Management examination.

The FDIC and the West Virginia Division of Banking (WVDOB) have always worked well together. We share work papers, discuss institution-specific concerns, and coordinate examination activities; the Relationship Manager Program strengthened this partnership. The WVDOB previously developed a similar program designating a State examiner as a "CPC" (central point of contact) for each State-supervised insured financial institution. Regular contact with the State examiner helps me gather information about the environment in which a particular bank operates as well as its overall risk profile.

The Relationship Manager Program has enhanced my understanding of the insured institutions in my portfolio and has strengthened my communication with bank management and State banking authorities. Bankers express their appreciation for the FDIC's willingness to listen and respond to their concerns, and the Program has fostered in me a sense of "ownership" of banks in my portfolio. This is indeed a "win/win" situation for the FDIC, insured institutions, and State regulators.

Dan Langdon
Examiner, Scott Depot, West Virginia, Field Office

findings into one consolidated Report of Examination proved more difficult. Compliance/CRA and Risk Management examinations may need to be conducted at different times during the cycle, and consolidating Compliance/CRA and Risk Management into one Report of Examination would delay the transmission of important examination findings to bank management. Therefore, separate Compliance/CRA reports will still be prepared but material findings contained in the Compliance/CRA Report of Examination will be summarized in the Consolidated Report. Consolidating examination findings for Risk Management and specialty areas, including material Compliance/CRA findings, will provide a bank's board a comprehensive overview of the risks and regulatory issues facing the institution. The Consolidated Report also will include the assigned ratings for Risk Management, Compliance, CRA, and any applicable specialty areas.

Coordination of all aspects of a bank's supervision and the use of a supervisory plan and Consolidated Report should improve coordination and consistency of message among examination disciplines. For example, Risk Management examiners will be more aware of an institution's Compliance risks and how they may

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affect its overall risk profile. In turn, Compliance examiners become more familiar with the institution's operations and related risks in specialty areas, such as Information Technology and Trust.

An Evolving Relationship between Banks and Supervisors

The FDIC's Relationship Manager Program is a natural next step in the evolution of the relationship between banks and regulatory agencies. Although their perspectives may at times differ, bankers and regulators generally have a common objective: safe, profitable institutions that provide fair and reliable service to consumers. Bank management now will benefit from having a local point of contact at the FDIC familiar with the institution's operations and overall risk profile. The Consolidated Report will provide the board with a comprehensive view of the bank's condition and outstanding supervisory issues. The flexibility fostered by the Program will improve the quality, continuity, and timeliness of the supervisory process and promote the efficient use of FDIC resources. Finally, everyone will benefit from enhanced communication between bankers and the FDIC.

Louis J. Bervid III
Senior Examination Specialist

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Members of the FDIC's Relationship Manager Development Group

Julie D. Howland
Special Assistant to the Deputy Director of Special Projects, Division of Supervision and Consumer Protection

Daniel J. Langdon
Examiner, Scott Depot, West Virginia, Field Office