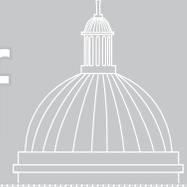




Federal Issue Brief



Bank Examination Reform

The Issue

Regulators ensure that the banks they supervise comply with all rules and regulations by having examiners visit banks on a regular basis to review their books. Although the details vary by the size and complexity of the institution, a bank “examination” consists of a detailed scrutiny of bank assets, liabilities, income and expenses. The exam process is designed to confirm that the bank is safe and sound, maintains accurate financial statements, and is properly following all applicable laws and regulations.

We support H.R. 1941, by Reps. Westmoreland (R-GA) and Maloney (D-NY), and **S. 774**, the Financial Institutions Examination Fairness and Reform Act, recently introduced by Senators Jerry Moran (R-KS) and Joe Manchin (D-WV). These measures would significantly improve the examination process by:

Action Needed

- Requiring that banks receive both timely examination reports and the rationale for the decisions of the examiners.
- Establishing an “Office of Independent Examination Review” to create a fair process for banks to appeal examination decisions.

Impact on Our Communities

Exams Must Be Consistent

Regulation, whether federal or state, is a fact of life for every bank across the country, but in some cases the inconsistent application of regulations by bank examiners has created problems. For example, bankers have reported that some examiners are not following the guidelines set by their own agencies in making determinations on the risks posed by certain types of loans. Inconsistent exam practices create additional and costly regulatory burdens for banks serving their communities.

Overzealous Exams Can Hinder Lending

Examiners look for loans that might pose a problem for banks and, therefore, require banks to set aside more capital that would normally be used for lending and hold it in reserve in order to cover any loss to the bank if the loan is not repaid. Some examiners insist that reserves be increased even when a borrower has never missed or been late on payments, which is inconsistent with current examination guidelines. This creates uncertainty that has a direct impact on the ability of many banks to make good loans.

Independent Appeals Process is Necessary

Bankers are hesitant to challenge decisions by regulators, often fearing retaliation in the form of delayed or rejected applications to engage in new lines of business or to open new bank branches. Many agencies have ombudsmen who try to resolve these problems, but these ombudsmen are not independent of the agencies they represent, so banks have not been comfortable using them.