

Bank:
Charter #:

Date of Exam:
Prepared By:

#15– LOAN REVIEW (Risk Focused)

ASSIGNMENT OVERVIEW

Every bank, no matter what its size, should have some system of evaluating the quality of its loan portfolio between examinations. The system may range from an internal grading of loans by disinterested loan officers to a full external loan review performed by an outside party. Both may be effective if they have sufficient independence, reliability, and scope. The objective of these procedures is to determine the competence and independence of the loan review function, and to evaluate its effectiveness in providing timely identification of problem loans.

INSTRUCTIONS

Examiners must follow the requirements in the Examiner Bulletin addressing Guidelines for Procedures and Work Paper Documentation for Commercial Examinations.

All examiners performing these procedures must be listed above in the “Prepared By” section. All of the CORE ANALYSIS PHASE should be completed. Comments and findings for each step should be made in the comment box below each question. Reference to work paper documentation should also be included here. Documentation is to be sufficient to allow an audit trail of the examiner’s thought process and all significant findings.

Information on the Summary of Findings page must tie back to the findings noted within the procedure. The SEIC/EIC will determine which information in the Summary of Findings will be included in the Report of Examination.

The EIC/AEIC should review this procedure when complete. Acknowledgement that this procedure has been reviewed by the EIC/AEIC will be noted on the SCOPE FORM.

EXAMINERS ARE RESPONSIBLE FOR EXERCISING SOUND JUDGMENT AND UTILIZING REASONABLE INVESTIGATIVE AND ANALYTICAL SKILLS TO ARRIVE AT AN ACCURATE ASSESSMENT OF THE RISK PROFILE OF THIS SEGMENT OF THE INSTITUTION’S OPERATIONS. PERFORMING ALTERNATE PROCEDURES NOT LISTED WITH THESE GUIDELINES MAY BE NECESSARY TO COMPLETE THIS RISK ANALYSIS.

CORE ANALYSIS PHASE

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1. Prior Criticisms

1. Determine whether deficiencies were noted in the last examination and most recent internal/external audit. If yes, determine if deficiencies have been addressed and/or corrected by management. Detail how deficiencies were corrected. *Include copy of exam and/or audit exceptions and management response in work papers, or summarize exceptions/criticisms below or indicate the page number in the last examination report where deficiencies are noted, if applicable.*

Comment:

2. Effectiveness of Loan Review

2. Assess the effectiveness of the loan review function. Consider the number and dollar volume of examiner loan downgrades as compared to the bank watch list or a recent external loan review. Determine if the watch list and/or loan review accurately reflects loan quality. *Include copy of internal watch list and loan review reports in 15-A and 15-B of the work papers.*

Comment:

3. Loan Review Staffing and Independence

3a. Assess the credentials of the external loan review firm and/or the bank personnel responsible for loan review. Comment on whether the firm or bank personnel possess sufficient training and experience to perform this function.

Comment:

3b. Determine if loan review is adequately independent from the lending function. Independence can be achieved from a good quality external loan review of sufficient scope or from bank personnel that are separate from the lending function. Determine whether the loan review personnel report to management or directly to the Board.

Comment:

3c. Determine if any member of senior management or board of directors/Chairman have the ability to override credit grades and decisions. Discuss with personnel in that function to determine if any overrides have occurred.

Comment:

4. Managing Problem Credits

4. Determine how the bank handles problem credit resolution and the staff responsible for this task (i.e. lenders, loan review, or work out department). Discuss and analyze strengths or weaknesses with the

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bank's practice.

Comment:

5. Compliance with Banking Regulations

5. Determine if the bank has a credit review system that complies with the Interagency Guidelines establishing Standards for Safety and Soundness ([12 CFR 364](#) for state nonmembers; [12 CFR 208 Regulation H, Appendix D-1](#) for member banks).

Complies with (answer one):

FDIC Supervised, Nonmember

12 CFR 364: Choose an item.

FRB Member

12 CFR 208, Reg H, Appendix D-1: Choose an item.

A response of "No" requires a comment.

Comment:

6. Final Analysis

6. Complete the [Summary of Findings](#).

SUMMARY OF FINDINGS

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Describe all strengths evident from the evaluation.

Describe all weaknesses evident from evaluation, including violations of law/regulation/rules; noncompliance with Departmental policies/guidelines; internal policy deficiencies/noncompliance; internal control weaknesses; MIS problems; and deficiencies in management supervision.

Determine why weaknesses exist and comment on management's response and plan of action. Identify bank personnel making the response.

SUMMARY RISK RATING ASSIGNED: Choose an item.

Provide copy of this page to EIC/AEIC. Receipt and review of this form by the EIC/AEIC will be evidenced by his/her initials in the appropriate column for this procedure on the SCOPE FORM.

[Return to Core Analysis](#)