



Report to Congress

**Regarding the results of a study on
the feasibility and appropriateness of establishing a formalized risk
management training program designed to lead to the certification of
Risk Management Analysts.**

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**The Results of a Study on the Feasibility and Appropriateness
of Establishing a
Formalized Risk Management Training Program
Designed to Lead to the Certification of
Risk Management Analysts**

This report has been prepared by the Federal Financial Institutions Examination Council ("Council") pursuant to Section 1218 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) (Public Law 101-73) which reads, in part, as follows:

(b) Study of Risk Management Training Program. -- Not later than end of the one-year period beginning on the date of the enactment of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, the Council shall --

(1) conduct a study on the feasibility and appropriateness of establishing a formalized risk management training program designed to lead to the certification of Risk Management Analysts; and (2) report to the Congress the results of such study.

Summary and Conclusions

The Council has conducted a study of the feasibility and appropriateness of establishing a formalized risk management training program designed to lead to the certification of risk management analysts. It has concluded that the present training programs of the member agencies and the Council provide a substantial amount of risk management training for examiners. The Council will, however, continue to consider ways in which those programs can be augmented.

Council member agencies have extensive training programs for their financial institution examiners. In their first three to five years on the job, examiners take courses and participate in on-the-job training. An important part of each program is instruction in the nature of financial services and the steps an institution can take to organize its policies and controls to properly manage the risks it undertakes. (Section I provides a discussion of member agency examiner training with significant portions devoted to risk management.)

Examiner trainees are evaluated at various stages in their development. On-the-job training and evaluation are extensive.

When the training curriculum is completed, the agency grants the employee full "examiner" status. At some agencies, such examiners are designated "commissioned."

Training continues throughout an examiner's career. Some examiners pursue graduate programs through part-time study supported by their agency; some seek advanced training at graduate schools of banking; and many attend the training programs offered by professional and trade associations.

The Council itself sponsors courses and conferences aimed at the continuing education needs of certified or commissioned examiners. These programs keep examiners up-to-date on the latest developments in finance and banking. Instruction in identifying and managing potential risk in financial institutions is the most important aspect of these programs.

In response to FIRREA (Sec. 1218), the Council will offer seminars on risk management for the employees of insured financial institutions. These seminars will be aimed at executive management and will emphasize (a) how to assess the risk management system at one's own institution, (b) how to structure a good risk management system that accounts for all the major risks encountered, and (c) how to institute such a system.

The risk management seminars will advise all segments of the banking and thrift industries on the need for each institution to have a risk management system that addresses all the important risks associated with their products or services. They will provide executive management of the banking and thrift industries with a systematic approach to cataloging and addressing risk. The industry is receptive and the Council seminars should have a lasting impact, not only on training, but also on risk management practice.

The goal is for those seminars to stimulate further interest and training in the establishment of comprehensive risk management systems in financial institutions. Professional and trade associations have expressed interest in continuing this training. The Council is considering similar seminars for agency examiners or the incorporation of these concepts into existing examiner training programs.

The Council is planning a videotape version of the seminar, with an accompanying moderator's notebook. This video-based course would make it possible for many organizations to offer a version of the seminar in-house. Thus the concepts would be widely distributed at low cost.

As an additional follow-up measure, the Council also plans to publish a booklet on the subject of risk management planning. The booklet will summarize the major concepts in risk management planning. It will be available for wide distribution and use in programs sponsored by industry.

Industry and trade groups sponsor many programs that address risk management for employees of financial institutions. It is appropriate that each industry group design and operate training programs to meet its specific needs. Since those needs differ, it would be difficult to design a single training curriculum to meet the needs of all industry segments. Therefore, the Council is encouraging industry groups to establish follow-up training using the concepts presented and pursuing the specific techniques of risk management their clients require.

The Council does not believe it should institute a formal risk management training program leading to the certification of risk management analysts. The private sector is moving toward establishing risk management analyst certification. The Council intends to track these developments and maintain a continuing familiarity with industry initiatives. We see no need at this time to attempt to duplicate the industry's resolve to develop such programs.

I. Risk Management Training of Examiners by the Federal Financial Institutions Regulatory Agencies and by the Council

The five agencies that comprise the Federal Financial Institutions Examination Council (Council) all have extensive training programs for their financial institution examiners. In the first three to five years on the job, examiners take courses and participate in organized on-the-job training. Their knowledge and skills are assessed at critical junctures in the programs. When the training is complete, the agency grants full "examiner" status. Some of the agencies refer to fully trained examiners as "commissioned." A common thread running through these training programs is the recognition of financial risks and evaluation of an institution's policies and procedures to control risk.

Training continues throughout an examiner's career. Some examiners pursue graduate programs through part-time study supported by their agencies; some seek advanced training at graduate schools of banking; and many attend the training programs offered by professional and trade associations.

The Council sponsors courses and conferences aimed at the continuing education needs of certified or commissioned examiners. These programs keep examiners up-to-date on the latest developments in finance and banking. Potential risk to the financial institution is the most important aspect from the viewpoint of the examiner.

Board of Governors of the Federal Reserve System - Risk Management Training for Examiners

The Federal Reserve System (System) provides a formal training program for Banking Supervision staff of the 12 Federal Reserve Banks and the Board of Governors. Reserve Bank supervision staff attend System courses plus other agencies' specialty schools and seminars as considered appropriate by Reserve Bank and Board management. The System also sponsors special courses and seminars on timely topics such as risk-based capital, FIRREA, asset securitization, real estate appraisals, and capital markets issues.

The System conducts a rigorous formal examiner training program that consists of 12 schools. The core courses -- Banking I, II, III and the Credit Analysis School -- total 11 weeks of classroom work and two weeks of precourse study. Each of the 12 schools deal with identifying, analyzing and managing the risks inherent in the financial services industry from product and funding risks through interest rate and legal risks. As the examiner progresses through the training programs, the types of risk studied become more complex.

The System also conducts schools in beginning and advanced trust examinations, beginning and advanced consumer compliance, bank holding company inspections, bank holding company applications, and effective writing. Appendix A presents descriptions of System training programs for supervision staff.

In addition to the Washington-based training, each Reserve Bank provides training to its examiners by holding regional conferences and enrolling staff in industry banking seminars. Graduate schools of banking provide another avenue for staff development.

The Federal Reserve's formal education program and rigorous on-the-job training, provides examiners with the education and experience they need to be recommended for a commission.

Federal Deposit Insurance Corporation - Risk Management Training for Examiners

The Federal Deposit Insurance Corporation (FDIC) has an Examiner Training Policy that describes the elements of employee development through formal and on-the-job training from trainee to commissioned examiner. The commission parallels FIRREA's "certification" in risk management. The program identifies job elements that an examiner must be able to perform, schools he/she must successfully complete, and the level of performance he/she must attain to become commissioned. The commission is awarded after an employee successfully passes an objective test that culminates months of study and three years of formal and on-the-job training in risk assessment and management.

The FDIC operates 14 formal training programs. The first five are mandatory, "core" courses devoted to risk identification, measurement and management. The first four of those, completed before an examiner is commissioned, total 10 weeks of classroom work and five weeks of precourse study. During the precommission stage, examiners' on-the-job training is continuous. The fifth core program lasts one to two weeks and is attended by examiners who have been commissioned for more than a year.

All core programs focus on risk and nearly all include topics added as a result of FIRREA. The first core course introduces risk analysis and focuses on teaching trainees to find and report areas that need further analysis by more senior personnel. The second core program expands into complex risk measurement, advanced accounting concepts and institution analysis. Those three weeks of class, and the extensive precourse preparation, cover unusual investments, differentiating trading versus investment activity, important elements of mortgaged-backed loans, the Bank Secrecy Act, irregularities and restructured debt, and an introduction to credit risk.

The third core course, covering credit risk, follows two weeks of precourse programmed instruction. The course teaches credit risk analysis using financial statement studies, credit modeling and

other tools. The fourth school gives students practice through case studies in analyzing banks and specific risk assets. It prepares examiners to convey analytical findings and recommendations to bank management and boards. The core curriculum concludes with a seminar that covers topics that change in response to changing industry or regulatory responsibilities such as FIRREA. Recent seminars have dealt with real estate appraisal, asset and liability management, exotic securities, and other areas of risk management.

The other nine formal training programs are available to examiners throughout their careers. In the first few years after being commissioned, every examiner attends one or more additional FDIC course and/or Council program addressing risk management in international banking, capital markets, white collar crime, income property lending, off-balance sheet risk, and payment systems risk. FDIC examiners also may attend the OCC's Foreign Exchange and Municipal Securities schools, and OTS's Real Estate Appraisal School.

The FDIC provides other development opportunities, including programs for senior examiners selected for on-the-job exposure to large bank examinations. Those specialists also are given the opportunity to pursue additional training in the private sector. In a similar program, Fraud Specialists attend FDIC and Council courses, private sector training, and seminars conducted by the Washington enforcement office. Commissioned examiners attend courses offered by professional vendors and associations, and the graduate schools of banking.

The FDIC has long been dedicated to training, testing, and assessing its examiners' knowledge of risk management. As a result of that interest in risk management and its increasingly technical nature, the FDIC is using more outside experts to provide training in topics like real estate lending and appraisal, exotic securities, and management of inherent and interest rate risk.

In July 1989, the FDIC began conducting programs on thrift accounting and operations and FIRREA in each Regional Office and in Washington. Hundreds of examiners and other professional staff attended those courses, which were conducted by auditors, consultants, and agency experts. In October, senior analysts were taught by an academic expert in risk management, the staff of a major accounting firm involved in risk management consulting work, and capital markets experts.

In December 1989, the FDIC piloted a comprehensive course in real estate appraisal analysis. The course emphasizes evaluating the assumptions that are built into appraisals.

Beginning in 1990, the FDIC's new capital markets staff will prepare a cadre of field experts through ongoing seminars on securitization, mortgage-backed securities, collateral mortgage obligations, derivative securities, interest rate risk, mortgage servicing, futures and options and related risk accounting, classification and

regulation. Regional seminars for affected staff will augment this program for designated specialists.

Specialty topics involving real estate appraisal and capital markets are becoming more important in the core training programs. This reflects the second major revision in primary risk training since the passage of FIRREA.

During the summer of 1990, the FDIC will train 120 senior examiners and thrift analysts of the Office of Thrift Supervision in how to classify assets, primarily commercial real estate credits. Those attendees will become instructors and be critical in effecting a change in the OTS approach to classification of risk assets. These OTS employees will take FDIC-developed training materials to their offices and train other OTS examining staff.

Appendix A provides more detail on FDIC training programs for examiners.

National Credit Union Administration - Risk Management Training for Examiners

The National Credit Union Administration (NCUA) conducts a two-tiered training program for its examiners. The first tier is the New Examiner Training Program. This program consists of eight weeks of training in five levels of classroom training. New examiners attend these programs during their first nine months on the job. This training is supplemented by NCUA's extensive on-the-job training.

The second tier of training consists of a series of core advanced technical seminars that last from two and one-half to five days. Each seminar focuses on a specific topic that is important to the overall safety and soundness of insured credit unions. These technical seminars rely on a mix of in-house instructors and outside experts from the financial industry to assure the highest quality of education.

Because of the importance of the subject, all training programs deal with the broad concepts of risk management. Appendix A provides more detail on NCUA training programs for examiners.

Office of the Comptroller of the Currency - Risk Management Training for Examiners

The Office of the Comptroller of the Currency (OCC) requires its examiners to have a strong foundation in understanding and evaluating risk management. Through formal and on-the-job training, examiners are exposed to all areas of risk within an institution and are taught to analyze the bank's ability to properly manage them. Examiners learn to distinguish systemic risks in the banking system and to evaluate individual risks in a particular institution

or region of the country. The types of risk common to financial institutions include: credit, interest rate, pricing, and market.

The OCC's national courses provide staff with the knowledge necessary to effectively evaluate risk and a bank's ability to manage it. In addition, the agency's districts offer specialized courses relating to specific risks encountered in their banks.

National Bank Examiners learn to monitor trends on an ongoing basis by attending training offered by various internal and external sources. This training prepares them to analyze call reports and other data through financial and industry modeling.

The OCC also produces publications that keep its examining force up-to-date on new concepts. The Comptroller's Handbook for National Bank Examiners gives examiners guidance on the types of risks associated with banking activities, how to review a bank's activities, and the types of policies and procedures a bank should have to control its level of risk. The Handbook was recently revised to provide examiners with more information on many areas of risk, including interest rate risk. The OCC has established separate examination guidelines for interest rate risk in multinational institutions and has recently published "Major Issues Affecting the Financial Services Industry" for use by examiners. Examining and banking circulars and bulletins and advisory letters keep examiners and bankers informed of the latest risk issues. Appendix A details the OCC's formal training courses that include risk management.

Office of Thrift Supervision - Risk Management Training for Examiners

The Office of Thrift Supervision (OTS) has a program of formal training and experience that an examiner must attain before being designated a Federal Thrift Regulator (FTR). That designation allows a staff member to act as examiner-in-charge of an examination. In addition to attending six schools and successfully completing an examination in each, the candidate must meet certain experience requirements under close supervision. This certification training involves nine weeks of formal instruction in all areas relating to the safe and sound operation of thrift institutions. It is comparable to FIRREA's suggested "risk certification" program.

In addition to the primary training for accreditation, OTS offers advanced training by conducting national schools in the following areas:

- Asset Liability Management
- Real Estate Appraisal
- Real Estate Lending
- Commercial Lending
- Holding Companies
- Mortgage Banking
- Advanced Financial Topics.

The national training is supplemented by training at district staff conferences, which are programs designed to meet specific district needs, and on-the-job training. Plans are underway to strengthen the asset classification training provided to regulatory staff as part of the FTR program.

The OTS also supplements that training with a series of Regulatory Handbooks. The Thrift Activities Handbook is designed to support a regulatory process that focuses on ensuring the safety, soundness, and continuing effectiveness of the thrift system and can be used as a reference tool, a training aid, and a guide to national policy and procedure.

The focus of the Thrift Activities Handbook is the assessment of five major areas of institutional quality: Management, Asset Quality, Capital, Risk Management, and Operating Results. The handbooks are periodically updated and provided to all regulatory staff.

Other handbooks cover Service Corporations, Holding Companies, Trust Operations, Compliance Activities, Electronic Data Processing, and Applications Processing. Appendix A provides more detail on OTS training programs that cover risk management.

Federal Financial Institutions Examination Council - Risk Management Training for Examiners

The Federal Financial Institutions Examination Council has been conducting training for examiners since 1979. The Council's programs serve as a supplement to the extensive training given to examiners by the agencies that comprise the Council. Over the years, the Council curriculum has grown to encompass 14 programs. Some of those training programs contain significant portions on identifying risk and/or evaluating risk management systems at financial institutions. The specific programs are discussed below.

International Banking I and II provide participants with an understanding of basic international banking activities and the risks inherent in trade finance, foreign exchange, money market trading, and merchant banking. These programs emphasize country risk.

International Capital Markets is an intermediate level course that focuses on the newer products in international capital markets and how to identify the attendant risks. The course gives attention to how institutions can control these risks and to examination procedures that can help an examiner evaluate an institution's risk control policies and procedures. The topics covered change from time to time, but now include foreign currency and interest rate swaps, stock and currency options, financial futures and derivatives.

The Income Property Lending Conference strengthens examiners' knowledge of real estate appraisal, market and feasibility studies, and loan underwriting standards. Topics usually include construction lending and loan workouts. This program emphasizes detecting poor real estate lending practices and eliminating undue risks associated with speculative real estate lending.

The Information Systems and Technology Conference keeps senior EDP examiners up-to-date on current developments in data processing for depository institutions. Its overall emphasis is on identifying the most significant risks in the EDP systems of financial institutions and teaching examiners how the risks can be avoided and the nature of policies and procedures that can control these risks.

The International Banking Conference provides international banking examiners and examiners-in-charge with up-to-date information regarding the risk status of foreign credits, foreign currency and money market risks. This program includes presentations on current regulatory concerns and new or changed policies and gives examiners the background they need to judge country risk and an institution's management systems to control the risks involved in international transactions.

The Off Balance Sheet Risk Conference informs examiners about the growth of banking activities that are not reflected on institutions' balance sheets and which may represent considerable contingent liability. Topics covered at this meeting have included the risks associated with standby and commercial letters of credit, loan commitments, securitization and sales of assets, various capital market products, and lender liability. Many of these individual topics are covered in detail by training programs of Council member agencies, but this program provides a more advanced treatment, and recognizes the collective magnitude of these potential risks.

Payment Systems Risk was designed to alert examiners to the systemic and internal risks involved in large dollar wire transfers, including all payment systems that present risks to participant institutions and daylight overdrafts. It also covers legal considerations and insurance risk.

The Trust Conference keeps examiners up to date on trust law, trust operations and the risks institutions accept with fiduciary responsibility. Topics covered have include fiduciary liability, identification and quantification of trust department risk, the role of document review in controlling risk, and operations risk.

The White Collar Crime Conference deals with abuses that can threaten the safety and soundness of an institution. The program emphasizes real estate lending, securities activities, computer fraud, and Bank Secrecy Act violations. Examiners are instructed in detection, investigation, interviewing, preservation of evidence and testifying. The program includes an in-depth discussion of the red flags of fraud and insider abuse.

II. Risk Management Training of Examiners Conducted by State Financial Institutions Regulatory Agencies and/or Associations of such Agencies

The state financial institutions regulatory agencies responsible for the supervision of state-chartered banks, thrifts, and credit unions have conducted risk management training through their related associations for many years. In addition, most have provided risk management training to state personnel at all levels by participating extensively in the training programs offered by federal financial regulatory agencies and the Council. The states find this dual arrangement advantageous and feel that continuing the practice will provide enhanced skill levels among state financial institution regulators.

The training conducted by the state supervisory associations encompasses, but is not limited to, interest rate risk, credit risk, investment risk, basis risk, operational risk, and liquidity risk. The association programs are conducted at various times and locations throughout the United States and are tailored to meet the needs of their examination personnel.

The schools range from the basic operations introduction for junior personnel to more sophisticated and advanced courses and seminars for senior level attendees. Those advanced courses cover such topics as how to evaluate an institution's loan portfolio, strategic planning, and asset/liability management using computer simulation. This type of program gives a broad view of risks inherent in a financial institution and provides an effective way to learn as conditions change.

State association training has the advantage of flexibility in the selection of topics addressed and the ability to update existing courses and seminars or introduce new material as needs dictate. As a result, State financial regulators can receive quality risk management training that anticipates the changing financial environment. Appendix B presents additional information on such training.

III. Risk Management Training of Employees of Insured Financial Institutions Conducted By Professional and Trade Associations.

Professional and trade associations have a long history of offering training programs related to risk management. Most trade associations provide training that addresses the specific training needs of their segment of the financial services industry, banks, savings and loans or credit unions. In addition, many consulting firms offer training programs in various areas of risk management.

The risks addressed most often by these associations are credit risk, interest rate risk, liquidity risk, off balance sheet risk, and operations risk. Many of the associations conduct introductory and advanced training in these areas.

Organizations also offer training in asset/liability management. Those programs present an organized way of looking at interest rate risk on an institution-wide basis. Asset/liability management models in the courses present the potential impacts of a variety of interest rate scenarios on portfolio values and income streams. When all the portfolios of an institution are considered together, this approach provides a view of interest rate sensitivity and shows the potential impact on the institution's income and net worth.

Professional and trade associations have been active in providing credit risk training for many decades. Trade associations offer credit analysis tailored to the institutions they serve. Many specialized seminars are available on topics such as consumer credit, credit cards, construction lending, commercial and industrial lending, loan underwriting, and loan review. Assessing lending risk and pricing to cover full costs are important lessons from such courses.

Bank operations is another area in which there is considerable training activity. In the area of electronic data processing risks, training often considers internal controls and procedures to reduce the risks of defalcation and error, system security, disaster recovery planning, penetration risk reduction techniques, telecommunications check lists and testing and network security.

Other programs address security and how to reduce security risk. They often address the risks of insider abuse and defalcation. Topics include auditing techniques that can be useful in detecting fraud and insurance aspects of protecting the institution and its directors and officers.

Industry associations also conduct seminars in off balance sheet risk. Those courses generally consider contingent risks, such as letters of credit, standby letters of credit, futures, forwards, options, interest rate swaps, and derivative products.

IV. Risk Management Training of Employees of Insured Financial Institutions by the Federal Financial Institutions Regulatory Agencies

Each of the five member agencies has an extensive program of outreach to the financial institutions they supervise. The overall purpose of that outreach is to give the institutions guidance on regulatory policy and alert them to situations and trends that significantly increase risk. In the following section the member agencies give examples of their activities to educate and inform the institutions they supervise.

Board of Governors of the Federal Reserve System - Risk Management Training Activities Aimed at Employees of Financial Institutions

The Federal Reserve System provides training and instruction for employees of Federally insured financial institutions in many ways. The Board and Reserve Banks publish periodic journals, rules and regulations, interpretive letters, opinions, speeches, research papers, consumer protection information, statistical and economic information, and other articles and information for bankers.

Some of the System's more prominent publications include the Federal Reserve Regulatory Service, a three-volume set of regulations and interpretations which is updated monthly; the monthly Federal Reserve Bulletin; the Commercial Bank Examination Manual; the Bank Holding Company Supervision Manual; the Consumer and Community Affairs Handbook; and the Securities Credit Transactions Handbook. Each of the 12 Reserve Banks also conducts a public information program.

Board members, Reserve Bank presidents and System staff frequently testify before Congress on economic, financial, banking and consumer issues. Board and Reserve Bank staff frequently speak at trade association conventions, professional meetings and industry training sessions. The Board conducts a well-established program for visiting state bankers' associations, which includes an address by a Board member and a question and answer period with senior staff. Each of the 50 state banking associations participates each year.

To ensure the quality of the training provided, more experienced examiners teach in Federal Reserve schools and make presentations to industry groups and the public. The Federal Reserve also prepares and distributes videos and brochures on topics important to bankers.

Bankers also receive direct training through the examination process. At the close of an examination or inspection, the examiner-in-charge discusses the management of risks and other findings with the institution's management and Board of Directors.

The examination process may lead to additional meetings between bank or holding company management and Reserve Bank supervisory and legal staff.

The Federal Reserve System plans to continue its program of educational outreach to employees of Federally insured financial institutions through publications, the state banking association visitation programs, participation in industry programs, and the examination process.

Federal Deposit Insurance Corporation - Risk Management Training Activities Aimed at Employees of Financial Institutions

The Federal Deposit Insurance Corporation contributes significantly to training bankers. Those contributions range from speeches and interviews by the Chairman on a national level, to efforts by examiners during the course of examinations to inform institution officers and directors regarding risk management.

At the corporate level, the FDIC routinely distributes press release material announcing policy or regulatory shifts being considered. They are prefaced by a discussion of the risk issues and an explanation of the FDIC's position. In critical risk management areas, interviews of FDIC representatives help disseminate information about areas of risk that need attention. Similarly, new or revised regulations or policy statements are released with thorough discussions of the associated risk issues. Those efforts help the banking community understand the issues.

The FDIC regularly provides speakers for professional meetings and training sessions. Senior management, regional representatives and examiners appear at national, regional, state and local meetings to address risk issues. FDIC staff also instruct at graduate schools of banking, where risk analysis is an important topic.

The FDIC's most thorough effort to train bankers is in the examination and follow-up supervisory process. The FDIC visits banks on a recurring basis, with resources focused on areas that early warning systems indicate need attention. During the examination, examiners meet frequently with bank managers, and at its conclusion, they meet with executives and members of the board. In these meetings, the examiner advises the banker about areas in which the bank may be exposed to excessive risk, and discusses ways to limit the effects of that exposure. If identified difficulties are not remedied, the examination will be followed by meetings with regional supervisors and analysts and further discussion of means to reduce undue risks.

The FDIC has also committed to examine every insured savings and loan association in 1990 to assess its risk and viability. Thus, the education FDIC examiners have historically brought to meetings with bank officials is now being extended to thrift employees.

The Federal Deposit Insurance Corporation will continue its program of industry education by publicly releasing information on risk management through press releases, speeches and media interviews. Proposed policy or regulatory issues will be discussed in written requests for comments with the results, final issue and underlying analysis provided directly to institutions affected.

The FDIC also will continue to operate its classroom risk management training and to assist professional associations in their courses. The FDIC will provide lecturers and panel members on risk management and related banking topics for professional meetings at all levels and will provide staff to graduate schools of banking to assist in simulation analysis and instruction.

The FDIC is committed to continuing direct training for financial institution management. Through the examination process, managers will have the benefit of insights concerning their specific institutions. Examiners and regional supervisors will analyze conditions and current institution methods and policy in detail, discuss them in depth, and counsel management on how to improve risk management.

National Credit Union Administration - Risk Management Training Activities Aimed at Employees of Financial Institutions

The National Credit Union Administration is interested in assuring wide distribution of information to the management and staff of Federally insured credit unions. To accomplish that goal, the NCUA provides speakers for many industry and trade association meetings, often on the topic of risk management. In addition, NCUA provides credit unions with periodic special reports, statistics, and other publications.

The agency's most important training efforts revolve around NCUA's philosophy of industry education. Examiners provide frontline training for credit union management. Throughout an examination, NCUA examiners provide credit union staff and management with valuable advice on how to best manage risk.

The National Credit Union Administration intends to continue its industry education efforts by providing speakers to trade association meetings and by publishing timely information on risk management topics as the need arises. NCUA believes the best way to provide credit unions with information and training is through the examination process. NCUA will continue to stress to its examiners the importance of their teacher/trainer role in ensuring the overall safety and soundness of the credit union system.

Office of the Comptroller of the Currency - Risk Management Training Activities Aimed at Employees of Financial Institutions

The Office of the Comptroller of the Currency is committed to keeping the banking community informed about the types of risk banks face that may need additional attention. The Comptroller of the Currency and the senior management team often speak before banking and community groups on trends that may increase the risks associated with various financial activities. OCC employees regularly participate in industry-sponsored forums and seminars and the OCC sponsors meetings with state banker associations to discuss such issues.

In addition, agency staff prepares informative articles for industry publications and has published several booklets aimed at informing boards of directors of their responsibilities to monitor risk. Those publications include "The Director's Book - The Role of a National Bank Director" and "A Director's Guide to Board Reports - Red Flags and Other Points of Interest."

The OCC recently published an Advisory Letter and Staff Paper presenting an "Overview of Interest Rate Risk." Other recent publications intended to educate the industry in risk management include: "Leveraged Financing and National Banks" and "Money Laundering: A Banker's Guide to Avoiding Problems."

Each of the OCC's six district offices has an active program for keeping bankers in their jurisdiction up-to-date on risks and ways to manage them. Several districts have conducted seminars for area bankers to discuss risk management topics, such as risk-based capital, FIRREA requirements, loan underwriting standards and interest rate risk. In addition, district personnel serve as panelists for industry training forums on topics such as risk assessment, risk-based capital, real estate lending, and other current issues in the banking industry. Districts also develop pamphlets and presentations that help banks in risk management.

The Office of the Comptroller of the Currency is dedicated to continuing its efforts to alert and educate the industry to risk management needs. Forty state bankers' associations are scheduled to meet with the Comptroller and the OCC's Policy Group in 1990. Approximately 15 similar meetings with other state bankers' trade associations are expected during the year.

In addition, the Comptroller and other members of senior management will speak before many groups throughout the year. They will participate as speakers and panelists at conferences, such as "Evaluating Loss Reserves on Real Estate Loans and Foreclosed Real Estate," and as keynote speakers at the annual conventions of Robert Morris Associates, the Conference of State Bank Supervisors, The American Institute of Certified Public Accountants, the American Bankers Association, the Independent Bankers Association, and

consumer banking groups.

District staff and management also participate in meetings and activities throughout the year in their efforts to help educate industry staff. They attend state bankers' conventions, host regional bank directors' seminars, and meet with other banking representatives and groups associated with the industry.

Office of Thrift Supervision - Risk Management Training Activities Aimed at Employees of Financial Institutions

The Washington, D.C. and district staffs of the Office of Thrift Supervision regularly participate in industry training by making presentations and taking part in panel discussions held for the industry. Some of these programs are for institutions in a given district and are on topics of special interest to institutions in that district, such as asset liability management. Others are aimed at training new board members for institutions nationwide.

OTS staff also has prepared publications that help all thrift institutions in training and operations. Among these are the OTS Regulatory Handbooks, the Compliance Self-Assessment Guides, a pamphlet on the Bank Secrecy Act, and a Guide for Boards of Directors of thrift institutions.

In response to FIRREA, OTS has planned to train industry personnel in two primary areas -- Board of Directors' Roles In The Management of Risk, and Capital Regulations. The OTS has already produced the necessary training materials and has prepared district staff to instruct these programs. District staff will use uniform training materials to teach seminars to industry staff in their districts beginning in July or August of 1990. Appendix C presents outlines of those planned courses.

The Office of Thrift Supervision intends to continue to provide information that helps thrift institutions manage institutional risk. That program includes periodically issuing national and district bulletins on matters of importance.

The OTS also will continue to help public and private organizations present material to the industry by participating as speakers or panelists at public seminars and meetings. In addition, OTS staff will continue to serve as faculty at graduate schools of thrift and bank management.

The OTS recognizes that examiners provide direct information to the institutions through meetings with management and boards of directors. At those meetings, they present and explain examination findings and outline corrective actions. To reinforce that method of training the industry, the OTS will provide its examiners with additional training in the area of asset classification.

Federal Financial Institutions Examination Council Risk Management Training Activities - Aimed At Employees of Financial Institutions

When requested, Council staff members make presentations to professional and trade association meetings. The examiner training staff has contact with professional and trade associations to exchange ideas and suggestions about training needs.

In response to Sec. 1218 of FIRREA, the Council has planned a series of seminars that will be delivered in the fall of 1990 and in 1991. The Council's goal is to stimulate a more comprehensive approach to risk management in financial institutions.

Many financial institutions have a fragmented approach to risk management. They may manage credit risk effectively but fail to give sufficient attention to other risks, for example, legal risks. Financial institutions need a systematic way to approach controlling all important risks associated with the products they offer. The process of designing, instituting, and maintaining a risk management system is risk management planning.

Good risk management planning will produce a system that accounts for all of the institution's important risks relative to each of its products. Planning will also lead to established policies and procedures for controlling these risks and requiring periodic reporting to executive management and the board of directors. Finally, risk management planning should result in the designation of a person or committee that is responsible for risk management throughout the institution.

The Council's seminar series will be called "Risk Management Planning." The program will give each participant:

- An understanding of the elements (theory) of risk,
- The background needed to oversee the drafting of risk management checklists that account for all the important risks associated with the bank's products,
- Knowledge of the basic elements of good policies and procedures,
- The ability to "put it all together" and draft a bank "road map" (matrix) for risk management, and
- Guidance on how to implement an effective bank-wide risk management system.

The seminars will emphasize the establishment of an organized system for risk management. Small institutions may institute effective systems without writing large policy manuals. Mere paperwork is not the solution.

The Council expects that industry groups, consultants and others will build on the concepts discussed in the seminars. The Council

plans to produce and distribute a booklet on Risk Management Planning based on the seminars. The booklet will briefly explain the theory of risk management, the elements of a good policy, how to plan risk management for an institution, and suggest ways to implement a bank-wide management system. This booklet will be available to bankers and as a supplement to future training programs.

The Council also plans to prepare a videotaped version of the course, with a moderator's notebook. This course will be available, at a moderate price, to professional or trade associations, consultants, and financial institutions that want to train their own employees.

This multi-pronged approach will ensure that the Council has a continuing impact on risk management training in the banking and thrift industry.

V. Formalized Programs Leading to Certification of Risk Management Analysts

A. Certification of Examiners

Board of Governors of the Federal Reserve System

The Federal Reserve System requires an examiner to successfully complete an extensive training program -- including the core schools and various specialty schools and seminars -- and a rigorous on-the-job practical training program before being recommended for certification as a commissioned examiner. Each Reserve Bank is responsible for evaluating candidates and seeing that System standards are met. That evaluation and the recommendation for commissioning is based on performance reviews by the examiner's supervisor. The Reserve Bank Officer in charge of Supervision then certifies that the examiner is prepared to be commissioned, and recommends the candidate to the Staff Director of the Board's Division of Banking Supervision and Regulation. A positive review by that office leads to the issue of a commission.

Federal Deposit Insurance Corporation

The Federal Deposit Insurance Corporation's certification program, referred to as "commissioning," is comprised of three elements. During their development period, assistant examiners must successfully: learn to recognize risks undertaken by financial institutions, pass a comprehensive objective test, and complete an assessment of their skills.

Before they can be commissioned, assistant examiners spend about three years in a comprehensive and structured developmental program. That program includes four formal training courses that total ten weeks of classroom work and nearly as many weeks in preparation study. Much of that time is dedicated to developing risk measurement and management skills. Precourse and in-school tests, graded projects, on-the-job observation, and many interim evaluations help supervisors determine when an assistant is appropriately prepared and should be recommended for consideration for promotion to commissioned status. When such a recommendation is made, the Regional Director considers the candidate for commissioning.

A positive evaluation from the Regional Director results in the assistant being scheduled to take an objective test that covers the FDIC Manual of Examination Policies and related policy statements, the Federal Deposit Insurance Act, FDIC Rules and Regulations and

related policy statements, Federal Reserve Board Regulations and the Bank Holding Company Act, and consumer compliance and civil rights regulations, nearly all of which incorporate concepts important to risk management. If the candidate passes that test, he/she may be scheduled for the assessment center.

At the assessment center, candidates for commissioning are evaluated on the skills of perception, judgment, decisiveness, organizing and planning, written communication, oral communication, leadership, adaptability, and interpersonal relations. Those skills are measured over several days by trained assessors who evaluate the participant's performance in three comprehensive exercises that simulate situations that require the skill of a commissioned examiner involved in risk assessment. Results of the assessment center are communicated to the participant in a feedback session.

A candidate who succeeds at the assessment center may be recommended for promotion to commissioned examiner by the Regional Director. A commissioned examiner is competent in the field of risk management. After commissioning examiners continue to develop their risk assessment and management skills through additional training and job experience.

National Credit Union Administration

Although the National Credit Union Administration does not have a program that leads to the formal certification of credit union examiners, all NCUA examiners receive extensive training and participate in examinations that assure their ability to identify and deal with complex problem situations and potential weaknesses in risk management. That program is the result of a study conducted by NCUA several years ago to establish a training curriculum that would provide examiners with the experience and knowledge they needed to be designated "commissioned" or "certified" examiners.

That study included a determination of the cost of developing, validating, and delivering a formal testing process that would lead to such certification. The NCUA board found the cost of a formal testing program was prohibitive and decided to adopt the detailed training program but delay implementing the testing program. As a result, NCUA's examiners-in-charge are not awarded a formal title of Commissioned or Certified Examiner, but receive the training that would allow them to be, were the program in place.

Office of the Comptroller of the Currency

The Office of the Comptroller of the Currency has identified specific core knowledge and skills all examiners need. In the first

four to five years on the job, precommission examiners are thoroughly exposed to those core knowledge and skill areas to develop their expertise in bank supervision and examination.

Examiners receive extensive on-the-job training and substantial formal training. They are specifically exposed to and trained in risk management areas including asset/liability management, compliance management, credit and financial analysis, management and board of directors processes, portfolio management, and bank accounting and auditing.

Examiners must become proficient in the core skills and knowledge areas before they can become commissioned as national bank examiners. To be commissioned, an examiner must demonstrate the ability to perform as a national bank examiner, must be certified as having acquired the necessary skills and knowledges by his or her supervisor, and must pass a thorough battery of exercises called the Uniform Commission Examination (UCE).

The UCE includes four parts -- a multiple choice test, a management skills in-basket exercise, a loan review simulation, and a simulated bank analysis and board of directors presentation. The multiple choice test assesses the examiners knowledge of such areas as accounting, economics, finance, laws, rulings and regulations, OCC supervisory policies and procedures, and bank operating procedures. The in-basket exercise assesses the examiner's skills and abilities as they relate to supervising an on-site examination team. The loan review assesses the examiner's ability to analyze, review, discuss, classify and write-up loans. The bank analysis and board of directors simulation assesses the examiner's ability to analyze actual or potential bank problems, write a supervisory letter documenting the issues of concern, prepare a board meeting agenda, and discuss findings with a mock board of directors.

A candidate who passes all four parts of the UCE is eligible for promotion to a position as a commissioned national bank examiner.

Office of Thrift Supervision

The Office of Thrift Supervision's Accreditation Program presently consists of the accreditation of "journeyman" examiners and other regulatory staff. Those regulators conduct safety and soundness examinations and ensure that any needed supervision is identified during the the examination process. Examiners and regulatory staff who successfully complete the accreditation program are designated Federal Thrift Regulators (FTRs). Only an FTR may serve as an examiner-in-charge.

The FTR designation is the result of experience and education. To be designated FTR, an employee must demonstrate a thorough general

knowledge of all phases of the regular scope examination report, either from the examiner's perspective or by managing a case load of savings associations. This includes hands-on experience that demonstrates the candidate's competence in each of the "MACRO" rating areas: Management, Asset Quality, Capital Adequacy, Risk Management and Operating Results.

The candidate also must successfully complete the six required courses in the accreditation curriculum. Additional required training in the area of asset classification is being developed. The required courses are:

- New Thrift Regulator School
- Loan Analysis
- Real Estate Appraisal School
- Risk Management or Financial Instruments: Futures and Options (only one of these courses is required)
- Asset Liability Management
- Intermediate Thrift Regulator School

Federal Financial Institutions Examination Council

The Council has no formal program that leads to certification of examiners. Each of the member agencies has its own training program that leads to the granting of full examiner status.

V. Formalized Programs Leading to Certification of Risk Management Analysts

B. Certification Programs Relevant to Risk Management for Employees of Insured Financial Institutions Sponsored by Professional and Trade Associations

Professional and trade associations offer a wide variety of programs related to risk management. These programs are offered to a broad spectrum of employees of financial institutions. The Certified Financial Analyst (CFA) program, for example, is a large and apparently successful designation in the area of general finance and risk management. The Council is not aware of any existing private sector programs (curricula) leading specifically to certification of risk management analysts.

Some professional associations have begun planning programs leading to the certification of risk management analysts. Industry groups are studying the need for such a designation and the certification requirements that would be appropriate. These organizations are large and respected professional or trade associations. The reputations of these organizations make the Council confident that their programs, if adopted, will have high standards.

V. Formalized Programs Leading to Certification of Risk Management Analysts

C. Certification of Risk Management Analysts

The Council has reviewed the examiner training programs of its member agencies and determined that many of the courses deal at length with issues relating to risk assessment and risk management. These programs are presented from the viewpoint of the regulator. In addition to addressing the basic risk aspects of financial transactions and instruments, examiners' training prepares them to evaluate policies and procedures aimed at controlling those risks. Although current examiner training programs place great emphasis on risk assessment and risk management, the agencies will continue to consider expanding and strengthening those training programs. At the end of a three to five year program of study, examiners are commissioned or certified by their agencies. The Council believes the agencies' commissioning programs are equivalent to professional certification programs. They involve extensive classroom training, testing and on-the-job training. The Council concludes, therefore, that an additional specialized training program for examiners leading to certification as risk management analysts is unnecessary.

The Council has also considered the feasibility and appropriateness of establishing a training program leading to the certification of industry employees as risk management analysts. It has reviewed the training available to financial institution employees through professional and trade associations. These organizations offer a wide variety of training programs relating to risk assessment and risk management. The programs are designed to meet the needs of the particular segment of the industry served by the association. At this time, the Council does not see a need for it to become a major provider of risk management training for industry. Rather, the Council sees its role as providing seminars for industry executives and directors that will guide them in developing effective systems in their institutions for bank-wide risk management. These seminars will emphasize the major risks to which financial institutions are subject and explain strategies for planning, monitoring and reporting an institution's risk exposure.

The Council has concluded that should not become involved at this time in establishing risk management certification programs for personnel employed by financial institutions. In reaching this decision, the Council considered 1) establishing its own certification program, and 2) setting standards for programs developed by others. In its study, the Council became aware that several highly regarded financial institution trade and professional organizations were in the process of planning programs leading to the certifica-

tion of risk management analysts. Given the reputations of the organizations involved, the Council believes it likely that the resulting certification programs, if established, will have high standards. Consequently, it believes that the best approach at this time is to let those programs evolve.

The Council considered the possibility of setting standards for such programs, but became concerned that standards would likely be minimum standards, which might dilute the certification standards of the more responsible certifying organizations. The Council, therefore, decided to encourage the development of such programs in the public sector and monitor them. If experience suggests that further intervention by the Council would help assure effective certification procedures, it could then take action.

Appendix A -- Courses for Examiners with Significant Portions Devoted to Risk Management Conducted by the Federal Financial Institutions Regulatory Agencies

Board of Governors of the Federal Reserve System

NOTE Basic schools are based on the idea that the four areas of supervision -- examinations, inspections, applications, and surveillance -- require similar analytical tools, involve similar supervisory issues, and depend on information from each other. Therefore, they emphasize common analytical and supervisory themes and stress areas of interdependence.

BANKING I

ELIGIBILITY This course is designed for individuals with approximately three months of experience in bank examinations, bank holding company inspections, applications and/or surveillance. Attendees should have completed the self-study guide "Fundamentals of Bank Accounting."

OBJECTIVES This three-week course makes students aware of the basic policies and practices of banking organizations and provides an understanding of the overall nature and scope of supervision and regulation as it relates to the four areas of bank supervision and consumer and community responsibilities. It also teaches basic regulatory accounting, elementary financial concepts and analysis, securities terminology and basic investment portfolio concepts, and selected laws and regulations affecting banking institutions. This course outlines the key elements of examinations, inspections, applications, and surveillance, and the interdependence of those four specialties.

BANKING II

ELIGIBILITY This intermediate-level course is designed for individuals with 12 to 18 months of experience in bank examinations, bank holding company inspections, applications and/or surveillance.

OBJECTIVES This three-week school prepares students to analyze and classify ordinary loans in a financial institution, to analyze the financial condition of a bank and a bank holding company using Uniform Bank Performance Reports (UBPR) and Bank Holding Company Performance Reports (BHCPR), and to use information from an examination (or inspection) report and a UBPR (or BHCPR) to present

a structured analysis of an institution's condition.

BANKING III

ELIGIBILITY This advanced course is designed for individuals who are about to be, or have recently been, commissioned as examiners, and for applications and surveillance staff with comparable experience. Students who have successfully completed Banking I and II or equivalent training are best prepared.

OBJECTIVES This three-week course has two main goals:

- To increase the understanding of specific banking functions, provide an overview of the operations of a banking organization, and introduce students to the complexities and trade-offs faced by senior bank decisionmakers.
- To reinforce and enhance special skills and knowledge in the four supervisory disciplines.

The course covers specific banking functions, including loans, securities, and administrative policy and planning and furthers an understanding of the influence of funding policies on the composition and volatility of an institution's liability structure and their relationship to institutional liquidity. The course uses BANKSIM, a realistic simulation of a banking environment to give students a better understanding of real-world banking.

The course prepares students to analyze the quality of a loan portfolio and the effectiveness of its administration; to appraise an investment portfolio, emphasizing its relationship to liquidity, earnings, and community responsibilities; to consider external factors such as economic conditions and competition that can affect a banking organization; and to appreciate the operational structure of a banking institution and how management's goals, strategies, and internal controls affect that structure.

CREDIT ANALYSIS SCHOOL

ELIGIBILITY This school is designed for employees involved in work that requires credit analysis skills. Students who have successfully completed Banking II and have had some exposure to extensions of credit are best prepared. Students must have read "Accounting for Lenders - 1" and "Accounting for Lenders - 2" and completed an accounting test before starting the

course.

OBJECTIVES This two-week course builds on the credit analysis and loan classification teachings of Banking II. It gives the student a systematic strategy for analyzing credits and discusses specialized types of credits. This academic training prepares field staff for independent responsibilities in asset quality examinations.

SENIOR FORUM FOR SYSTEM SUPERVISORY PERSONNEL

ELIGIBILITY This course is designed for commissioned examiners with at least five years of supervisory experience or for senior level personnel with equivalent responsibilities and experience.

OBJECTIVES This interactive forum is the basis for continuing education for senior examiners and senior personnel assigned to system supervision and regulation function. The topics and speakers change to cover critical areas of interest, although it will always address securities activities.

BANK HOLDING COMPANY APPLICATIONS SCHOOL

ELIGIBILITY This course is designed for staff who are relatively new to applications processing, generally those with two to nine months of experience.

OBJECTIVES This one-week course is designed to give new caseworkers a basic understanding of applications processing and make them familiar with related Board decisions. It provides an understanding of the Bank Holding Company Act and Regulation Y and of applications issues handled in other divisions -- competitive issues, CRA considerations, and related legal matters.

BANK HOLDING COMPANY INSPECTION SCHOOL

ELIGIBILITY This principles-level course is designed for individuals with a basic understanding of bank accounting, bank analysis and the CAMEL rating system, whose responsibilities require a broader understanding of bank holding company analysis.

OBJECTIVES This one-week course prepares students to perform bank holding company inspections and analyze bank holding company financial condition. It familiarizes students with the laws and regulations that apply to the formation and operation of bank holding companies as well as their accounting techniques and financial statement structure. Students learn to use the BOPEC rating system to assess overall financial condition.

BASIC ENTRY LEVEL TRUST

ELIGIBILITY This course is designed for students with at least three months of trust examining experience or 24 months of general examining experience.

OBJECTIVES This two-week course prepares students to identify the major functions of a financial institution's trust department and the duties and responsibilities associated with its fiduciary obligations. It introduces the Federal Reserve's role in trust supervision.

ADVANCED TRUST

ELIGIBILITY This program is designed for students who have at least two years of experience examining trust department and transfer agent activities. They should have successfully completed the Basic Trust School.

OBJECTIVE This program provides familiarity with the complex legal, tax, investment and related subjects involved in the fiduciary and other services offered by bank trust departments and trust companies. It teaches participants to review for (a) safety and protection of beneficiaries, (2) the effect of trust and related activities on the soundness of the financial institution, and (3) compliance with laws and regulations. This course prepares students to apply informed discretion in directing examinations and discussing results with trust professionals and management officials and to draft written report comments summarizing problems and analyzing the conditions of trust and transfer agent functions.

CONSUMER COMPLIANCE EXAMINATION I SCHOOL

ELIGIBILITY This course is designed for inexperienced consumer examiners who have participated in two to four consumer examinations.

OBJECTIVES This three-week school familiarizes students with all consumer laws and regulations. Sample loan files, case studies and a mock examination provide practical experience in the skills needed to assist in compliance examinations and implementing examination procedures.

CONSUMER COMPLIANCE EXAMINATION II SCHOOL

ELIGIBILITY This course is designed for students with at least 18 months of examination experience in Consumer Affairs who have successfully completed Consumer Compliance Examination I.

OBJECTIVES This one-week school addresses the more complex problems and issues a senior examiner may encounter. It focuses on how to effectively conduct an examination and present findings to management.

Federal Deposit Insurance Corporation

ASSISTANT EXAMINER SCHOOL I

ELIGIBILITY This course is open to assistant examiners with three to six months of experience in bank examination and a basic understanding of bank records, accounting and terminology. Students prepare by thoroughly studying the AIB text, Principles of Banking, and the Assistant Examiner's Training Manual.

OBJECTIVES This concentrated two-week school stresses the fundamentals of bank supervision, basic report analysis, and accrual accounting applicable to banking. It enhances examiners' comprehension of the techniques and methods used in preparing reports of examination, teaches the importance and meaning of the various core schedules and examination functions, and shows participants how to function as integral members of examination teams. The course uses case studies and problems dealing with accounting, earnings, investments, ratio analysis and audit and control, as well as lectures, films, slides, and videotapes.

ASSISTANT EXAMINER SCHOOL II

ELIGIBILITY This course is open to students with 12 to 18 months of examination experience, knowledge of bank accounting, and familiarity with bank operations. Students prepare for the course by completing the programmed instruction course Loan and Discount - Concepts of Secured Transactions, the net present value primer, the text Bank Analysis From External Sources, precourse work covering trust activity, lease accounting, troubled debt restructuring, and insider transactions, plus required reading.

OBJECTIVES This three-week school stresses the fundamentals of loan review, basic ratio analysis, and advanced accounting issues relevant to bank and thrift examinations. It familiarizes students with the basic concepts of loan review including documentation requirements, principles of secured transactions, and fundamentals of credit analysis.

This course prepares examiners to make meaningful judgments about a thrift, bank and/or bank holding company's capital, liquidity, earnings, interest rate risk, and asset quality, based on the available ratios and their interrelationships.

The course uses lectures, films and slides, as well as case studies and problems dealing with thrift, bank and bank holding company analysis, affiliate relationships, insider activity, trust examination and credit analysis as well as lectures, films and slides.

ASSISTANT EXAMINER SCHOOL III

ELIGIBILITY This course is open to students with 18 to 30 months of bank examination experience, including on-the-job training in loan review.

OBJECTIVES This two-week course on credit analysis and regulatory loan classification procedures prepares students to assist in loan review at a commercial bank or thrift containing moderately complex credits. The Commercial Loans to Business self-study program and the credit workshop portion of the course teach participants commercial lending from the lender's perspective, and give them an appreciation of the comprehensive analysis and decisionmaking involved.

Students learn to readily recognize substandard credits through loan review, to determine estimated losses in such credits, and to assign adverse classifications appropriately. The course introduces bankruptcy and consumer protection laws and The Examiner's Comments and Conclusions Page of the FDIC Report Of Examination. The course uses lectures, videotapes and role-playing exercises, including practice loan write-up exercises, but relies primarily on case studies and group discussion.

ASSISTANT EXAMINER SCHOOL IV

ELIGIBILITY This course is open to participants with 30 to 42 months of bank/thrift examination experience, who have a good understanding of the types and characteristics of credits and have participated in loan discussions and other management meetings. Completion of Assistant Examiner School III and knowledge of examination report preparation is recommended.

OBJECTIVES This intensive three-week school instructs senior assistant examiners in the judgmental and communication skills involved in bank/thrift examination and supervision. It develops their skills in conducting

discussions and meetings with financial institutions personnel, appraising management policies and procedures, and writing reports. The course also introduces problem examinations, the use of enforcement actions, and securities trading.

The course relies heavily on case study, group discussion, and individual instruction in communication skills. Students prepare loan write-ups, examiner's comments and, at the conclusion of the major case study, a Report of Examination. Each student also conducts a mock board meeting.

COMMISSIONED EXAMINER SEMINAR

ELIGIBILITY This program is intended as a formal training program for recently commissioned examiners. It is most valuable to examiners who have been commissioned for one to two years.

OBJECTIVES This one-week seminar focuses on advanced examination techniques and the examiner's role in the supervisory process. It enhances examiners' knowledge of the Corporation's supervisory function, focusing on advanced material and the examiner's involvement in problem and failing financial institutions. The topics covered include income property lending, securitization, interest rate risks, hedging, futures and forwards, and enforcement actions. In 1990, the course emphasizes the current work environment, i.e., bank and thrift accounting issues, risk-based capital, sophisticated investment vehicles, problem and failing banks and thrifts, and advanced or emerging topics.

This seminar depends on lectures by industry experts and FDIC Washington Office personnel and uses case studies and group assignments. Students analyze data and formulate and defend proposed corrective actions.

REGIONAL UPDATE SEMINAR

ELIGIBILITY This course is designed for senior commissioned examiners who have completed the Commissioned Examiner Seminar. The topics in this Seminar are changed frequently to adapt to the changing examination environment, so examiners should repeat this update seminar every four to five years.

OBJECTIVES This approximately one-week program communicates recent changes in examination techniques and policies to commissioned examiners. It focuses on more advanced examination techniques and the examiner's role in the supervisory process. These seminars are conducted in

the Regions, with the program length and topics determined according to the interests and needs of the particular Region and the attendees.

REAL ESTATE APPRAISAL SCHOOL

ELIGIBILITY This course is most valuable to commissioned examiners who have, or plan to have, considerable involvement with income property loans. Before taking the course, students need three full days of preparation -- to read the "Income Property Valuation" text, the "Capitalization Theory and Techniques" study guide, and "Present Value - A Primer" and calculate and analyze discounted cash flows.

OBJECTIVES This highly concentrated two-week course integrates the principles of real estate appraisal with the examination review process. It provides students with the theoretical and practical analytical tools they need to cope with major lending in a volatile and deregulated market environment. The course comprehensively covers areas to be considered when evaluating income property appraisals. The course addresses all approaches to the evaluation of real estate collateral, but emphasizes the Income Approach to value. This program enables examiners to better understand, challenge or discount the validity of commercial real estate appraisals. The course uses lectures, case studies and "hands-on" problem-solving.

CAPITAL MARKETS SEMINAR

ELIGIBILITY This course is designed for senior commissioned examiners and Assistant Regional Directors who will serve as regional specialists in this area.

OBJECTIVES This approximately one-week course, conducted by the new Capital Markets Group, raises participants' understanding of why financial institutions invest, hedge and use specialized products created for those purposes, and what the associated risks are. Topics covered include securitization, mortgage-backed securities and collateralized mortgage obligations; derivative securities; interest rate risk; mortgage servicing; futures and options; interest rate swaps, caps, floors and corridors; and classification and accounting issues. This course answers questions attendees may have concerning these products. Later sessions build on this knowledge, and are targeted at the needs of specialists or field staff.

National Credit Union Administration

AGRICULTURAL LENDING SEMINAR - Course 104

ELIGIBILITY This seminar is open to examiners with one or more years of experience.

OBJECTIVES This three-day course gives examiners a background in the highly specialized area of agricultural lending. It outlines what should be in a good loan file and a good credit file. The course teaches participants to evaluate the soundness of the lending decision. An on-site visit to a family farm demonstrates the problems farmers face and how those problems can affect the lending decision. The discussion covers many principles that will be valuable to examiners who need information on commercial lending decisions.

ASSET-LIABILITY MANAGEMENT SEMINAR - Course 202

ELIGIBILITY This course is designed for examiners with one or more years of experience.

OBJECTIVES This five-day course introduces the examiner to the concept of asset/liability management (ALM) and GAP Management. It prepares examiners to review the individual components of an ALM policy and recognize "red flags" that show up during an examination. It provides them with information on evaluating computer models and offers hands-on experience in using an ALM model. This seminar is conducted for NCUA by an outside group with extensive experience teaching ALM.

ASSET/LIABILITY MANAGEMENT SEMINAR - Course 202A

ELIGIBILITY This course is designed for examiners with one or more years of experience who have successfully completed NCUA's Introduction to Asset/Liability Management Seminar.

OBJECTIVES This two and one-half day course gives examiners information on evaluating computer models, and hands-on experience in using an ALM model. This seminar is conducted for NCUA by an outside group with extensive experience teaching ALM.

NOTE: During fiscal year 1991, the Asset/Liability Management Seminar - Course 202 will be made up of two separate two and one-half day modules. The first module will introduce basic ALM concepts. The second module will deal with advanced ALM techniques, review

computer simulation models, and provide hands-on experience in using an ALM model. To be nominated for the second module attendees must have completed a previous ALM Seminar.

INTRODUCTION TO COMMERCIAL LENDING SEMINAR - Course 203

ELIGIBILITY This course is open to examiners with one or more years of experience.

OBJECTIVES This five-day course provides an understanding of the analytical tools and the philosophy of commercial lending. Discussion covers topics such as types of commercial loans and their characteristics, financial statement analysis, cash flow projections, introduction to problem loan management, risk-based pricing, and approaches to examining the commercial loan portfolio. Throughout this course, case studies supplement the lectures. This seminar is conducted for NCUA by an outside group with extensive experience teaching commercial lending.

ADVANCED COMMERCIAL LENDING SEMINAR - Course 204

ELIGIBILITY This course is designed for examiners who have completed the Introduction to Commercial Lending Seminar and possess a good working knowledge of financial statement and cash flow analysis.

OBJECTIVES This three-day course builds on the material presented in the Introduction to Commercial Lending Seminar by examining more advanced topics in commercial lending. Topics covered include complex commercial lending decisions, problems in the cash flow cycle, lender liability, and the management of problem loans. Actual cases drawn from a variety of industries supplement the lectures. This seminar is conducted for NCUA by an outside group with extensive experience teaching commercial lending.

INTRODUCTION TO REAL ESTATE LENDING SEMINAR - Course 205

ELIGIBILITY This seminar is designed as an introduction to real estate lending for examiners with one or more years of experience or as a refresher for examiners with experience in this area.

OBJECTIVES This five-day course teaches examiners to analyze and evaluate real estate and consumer lending programs in credit unions. It covers credit union mortgage lending regulations and programs, mortgage lending products, the underwriting decision, the secondary mortgage market, appraisals, delinquency problems, consumer

lending issues, credit reports, home equity credit lines, collection programs, and consumer compliance issues.

ADVANCED REAL ESTATE LENDING SEMINAR - Course 206

ELIGIBILITY This seminar is aimed at senior examiners who perform examinations of credit unions with large, complex mortgage lending departments. Participants must have successfully completed the Introduction to Real Estate Lending Seminar - Course 205.

OBJECTIVES This three-day course gives examiners detailed information on the secondary mortgage market and marketing real estate loans, and an in-depth understanding of how to evaluate large, complex real estate lending departments.

NOTE: This course is being offered for the first time in 1990.

AUDITING PRINCIPLES AND FRAUD DETECTION SEMINAR - Course 207

ELIGIBILITY This seminar is designed for examiners with one or more years of experience. It serves as a refresher for examiners with experience in this area.

OBJECTIVES This five-day course reviews procedures and techniques that can be used to verify the accuracy of credit union records, deal with recordkeeping problems, and detect fraud. It also gives some hints on quick ways to spot problems and reviews how to analyze a credit union audit.

INVESTMENT SEMINAR - Course 208

ELIGIBILITY This seminar is designed for examiners with one or more years of experience.

OBJECTIVES This three-day course provides up-to-date information on the various types of investments, legal and illegal, in credit unions. It reviews the positive and negative aspects of various investment opportunities, examination procedures and accounting issues involving investments. This course prepares examiners to make an overall evaluation of an investment portfolio.

PROBLEM CASE CREDIT UNION SEMINAR - Course 209

ELIGIBILITY This seminar is for problem case officers and senior examiners who have extensive experience in problem case situations.

OBJECTIVES This three-day course provides a forum for discussion

of the problems associated with dealing with complex problem cases, special actions and workout plans. It emphasizes developing innovative solutions to problems. It relies on complex special actions case studies and active exchange of experiences and knowledge by all participants.

Office of the Comptroller of the Currency

ADVANCED RISK MANAGEMENT SEMINAR

ELIGIBILITY This program is designed for examiners who are actively involved in analyzing multinational funding activities.

OBJECTIVES This seminar addresses many areas related to risk, including asset securitization, options, and a variety of other risk management issues. It is presented by industry experts.

ASSISTANT NATIONAL BANK EXAMINER SCHOOL

ELIGIBILITY This program is designed for assistant national bank examiners.

OBJECTIVES This school uses case studies and practical exercises to reinforce examiners' understanding of commercial bank supervisory activities. It exposes them to the major elements of a commercial bank examination.

BANK SECURITIES DEALERS/MSRB SEMINAR

OBJECTIVES This seminar trains examiners to review bank municipal and U.S. Government securities dealer departments for compliance with rules and regulations. It also prepares them to detect unsafe and unsound banking practices.

BANK SUPERVISION SCHOOL

OBJECTIVES This school presents a broad overview of bank supervision. It covers major technical and supervisory topics and various laws.

COMMERCIAL BANK MANAGEMENT

OBJECTIVES This course provides a complete introduction to reviewing and assessing the management of assets and liabilities. It emphasizes risks associated with bank

operations and operational controls.

CREDIT ANALYSTS' SCHOOL

OBJECTIVES This school teaches examiners to analyze businesses' financial statements in order to determine credit quality. It gives them guidelines for assessing the risks associated with lending.

EVALUATING BANK STRATEGIC PLANS

OBJECTIVES This course gives examiners an understanding of the strategic planning process and the background they need to evaluate a bank's processes. It also prepares examiners to evaluate a bank's actual plan and how it monitors implementation of the plan.

FOREIGN EXCHANGE/INTERNATIONAL TREASURY SEMINAR

OBJECTIVES This course teaches examiners advanced concepts on foreign exchange contracts, risk identification, and examination techniques for foreign exchange and international treasury operations.

INDUSTRY INSIGHTS

OBJECTIVES This high level, semiannual seminar focuses on current banking industry issues and addresses systemic risk. It is presented by prominent industry speakers.

INTERMEDIATE ASSET/LIABILITY MANAGEMENT

ELIGIBILITY This school is targeted to examiners who will analyze regional bank funding activities and/or assist in multinational funding examinations.

OBJECTIVES This course develops examiners' asset/liability management skills and addresses the risks associated with funding.

MANAGER'S OVERVIEW OF FIDUCIARY BANKING AND ASSOCIATED RISKS

OBJECTIVES This course gives examiners a basic overview of fiduciary banking with emphasis on the associated risks.

OFF-SITE ANALYSIS SCHOOL

OBJECTIVES This course provide examining staff with a formal review of off-site analysis. It discusses the use of computer modules to assess bank strategies and challenge a bank's planning assumptions.

Office of Thrift Supervision

NEW THRIFT REGULATOR SCHOOL*

OBJECTIVES This course teaches students the basics needed to supervise a thrift institution. It introduces them to the necessary skills of financial analysis, credit evaluation, and capital adequacy calculation. The course also covers interest rate risk, credit risk, asset/liability management, and liquidity. An associated self-study program introduces the examiner to consumer compliance and provides a general overview of associated regulations.

ASSET/LIABILITY MANAGEMENT I AND II*

OBJECTIVES These specialized courses teach students to analyze asset/liability management and understand liquidity considerations in the operation of a thrift.

FINANCIAL INSTRUMENTS, FUTURES AND OTHER AGREEMENTS*

OBJECTIVES This specialized course introduces students to the basic concepts related to financial trading instruments such as interest rate swaps, futures, and options.

RISK MANAGEMENT SCHOOL*

OBJECTIVES This course gives students hands-on experience managing a thrift institution using a computer simulation. Students get practical exposure to the concepts of credit risk, interest rate risk, liquidity, asset/liability management, capital risk management, investment decisionmaking, and income planning.

INTERMEDIATE THRIFT REGULATOR SCHOOL*

OBJECTIVES This course prepares students to analyze and evaluate a medium sized institution. It expands students' understanding of credit risk, interest rate risk, asset/liability management, and capital adequacy.

* OTS-Accredited Courses

HOLDING COMPANY SCHOOL

OBJECTIVES This specialized course teaches students how to assess the impact of holding company leverage on a thrift's capital adequacy.

BUSINESS LENDING SCHOOL

OBJECTIVES This specialized course prepares examiners to evaluate various types of business credits and assess loan review systems and classification procedures. The topics covered include various types of business credits and junk bonds.

LOAN ANALYSIS SCHOOL*

OBJECTIVES This specialized course teaches examiners to analyze and evaluate lending policies, asset classification systems and cash flow analyses.

REAL ESTATE LENDING

OBJECTIVES This specialized course on residential and commercial real estate portfolios prepares examiners to evaluate real estate credits, troubled debt restructurings, and foreclosure issues.

REAL ESTATE APPRAISAL SCHOOLS I* AND II

OBJECTIVES These specialized courses help examiners comprehend and evaluate the real estate appraisal process.

MORTGAGE BANKING SCHOOL

OBJECTIVES This specialized course on underwriting, buying and selling residential mortgage portfolios teaches students to evaluate and manage the risk involved in an institution's mortgage banking activities. Topics covered include interest rate risk and liquidity.

SENIOR FINANCE SCHOOL

OBJECTIVES This specialized course on key operating ratios, results and margins prepares examiners to evaluate an institution's operations, including interest rate spreads and policies.

* OTS-Accredited Courses

EDP EXAMINER SCHOOL

OBJECTIVES This EDP course for general examiners is under development.

SPECIALIST COMPLIANCE EXAMINER TRAINING

OBJECTIVES This course trains examiners to conduct specialized consumer examinations.

Appendix B -- A Sample of Courses for Examiners with Significant Portions Devoted to Risk Management Conducted by State Financial Institutions Regulatory Agencies

Conference of State Bank Supervisors

NOTE With the exception of the Senior Bank Examiners School, these programs are offered at several regional locations each year.

BANK OPERATIONS SCHOOL FOR EXAMINERS

ELIGIBILITY This school is designed for examiners with 3 to 12 months of experience with a state banking department.

OBJECTIVES This school provides practical how-to-do-it training to supplement that received on-the-job. It goes beyond how to fill out examination reports and schedules, by examining the theory and concepts behind different aspects of the examination process and teaching examiners how to analyze and interpret results. It also exposes beginning examiners to bank financial analysis from external sources (ratio analysis).

CREDIT EVALUATION SCHOOL FOR BANK EXAMINERS

ELIGIBILITY This school is offered to examiners who have had some work with installment, mortgage or small commercial loans.

OBJECTIVES The sessions teach examiners to gather sound information and to effectively communicate findings (orally and in writing) to banks and banking departments.

ADVANCED SCHOOL FOR BANK EXAMINERS

ELIGIBILITY This school is designed for examiners who have been or shortly will be in charge of examinations for various sized banks and who are responsible for evaluating a commercial loan portfolio as well as other types of loans.

OBJECTIVES This course gives students a chance to simulate the asset/liability management decision-making process in a volatile interest rate environment as members of a "senior bank management team." It focuses on technical aspects of examination process, but includes sessions on strategic planning, leadership skills, report writing and conducting board meetings.

SENIOR BANK EXAMINERS SCHOOL

ELIGIBILITY This school is directed at senior state banking department personnel. It is held annually at University of Oklahoma.

OBJECTIVES This school exposes participants to new developments in the field, increases their knowledge of broad financial structure and its importance, and encourages innovation and efficiency in state bank examination and regulation by the exchange of information.

BANK FINANCIAL ANALYSIS

OBJECTIVES This recently developed three and one-half day program is presented as needed on an individual or multi-state basis. It prepares students to:

a. identify information sources used to determine certain Uniform Bank Performance Report (UBPR) ratios;

b. identify key ratios and use the User's Guide to interpret a UBPR;

c. analyze a bank's condition using ratios on key report pages and in the UBPR; and,

d. assign individual and composite CAMEL ratings using ratios on key report pages and in the UBPR.

SEMINARS FOR DEPUTY SUPERVISORS AND OTHER SENIOR MANAGEMENT PERSONNEL

OBJECTIVES These seminars are held twice a year (more if needed) throughout the country. They address current issues and problems that directly affect state banking departments, focusing on policy and management-level problems, and give participants a unique opportunity to hear different viewpoints regarding solutions to regulatory problems.

SEMINAR ON INTERNATIONAL BANKING

ELIGIBILITY This seminar is designed for state bank supervisors, their deputies, examiners involved with international banking activities, and other senior departmental personnel who have a working knowledge of international banking.

OBJECTIVES This course focuses on supervision and regulation of international banking. It considers international lending and the international transactions of domestic banks as well as the chartering and supervision of foreign-owned banking facilities in U.S.

National Institute for State Credit Union Examiners

The National Institute for State Credit Union Examiners (NISCUE), affiliated with the National Association of State Credit Union Supervisors (NASCUS), presents an annual program designed for state credit union regulatory personnel which emphasizes risk management activities from the contemporary perspective of a changing financial environment.

The most recent session included an in-depth review of asset/liability management and touched on related topics such as controlling interest rate risk, comparing interest rate risk and credit risk, gap management, gap analysis, and sensitivity analysis. It also explored the relationship of profitability to basis risk, and how internal and external factors can affect that relationship. The program also taught students how to develop and review the asset/liability management policy statements they encounter when examining credit unions. The coverage of investment risk emphasized the different types of investment instruments in which credit unions may participate and the effects of market fluctuations on them and other recognized risk assets.

American Council of State Savings Supervisors

The American Council of State Savings Supervisors operates the Institute for Supervisory Education. The Institute's program includes an annual financial regulatory forum designed for thrift regulators, deputies, senior supervisory personnel, and legal counsel. Distinguished speakers present regulatory, management and industry topics in a format that uses panel discussions, debates and question and answer periods to encourage group participation.

The forum provides regulators the opportunity to discuss the direction of the increasingly complex thrift industry, increase their understanding of the diversified marketplace, and explore the viability of the dual (state and federal) regulatory system. It covers topics such as the current economic perspective, the role of the S&L industry, commercial lending, troubled loans, lender liability, and white collar crime.

Appendix C -- Courses for Employees of Insured Financial Institutions with Significant Portions Devoted to Risk Management Conducted by the Federal Financial Institutions Regulatory Agencies

Office of Thrift Supervision

THE DIRECTOR'S ROLE IN MANAGING RISKS (Course Outline)

- I. Legal Responsibilities of Directors
 - A. Recent events
 - B. General Guidelines - OTS, OCC, FDIC, (BIF & SAIF)
 - C. OTS expectations of directors
 - D. Two main responsibilities: to set policy and oversee management
 - 1. Both require independence and insight
 - E. Duty of Care
 - 1. Judgment and diligence
 - 2. Active involvement
 - F. Duty of Loyalty
 - 1. "Fairness"
 - 2. Conflicts of interest
 - 3. Seizing opportunities
 - 4. The positive side
 - G. Policy Formulation
 - 1. Includes planning
 - 2. Policy formulation and monitoring
 - 3. Insures implementation occurs
 - H. Monitoring operations and compliance
 - 1. On-going function of board - needs "system"
 - 2. Requires "good" information
 - I. Review and Accountability
 - 1. Delegation with responsibility
 - J. Overall accountability and oversight
 - 1. Expectations on both sides

- II. Board Involvement in Risk Management
 - A. Policy setting
 - 1. Key policies related to risk

2. Governs activities - not management
 3. Frequent updating and review for compliance
- B. Training
1. Injects the "long view" by the board
 2. Must keep level of competency high
 3. Requires training for board members on new developments
- C. Reviewing Board Information Packages
1. Defining format and inclusions
- D. Planning
1. Setting markets and products
 2. Considering/analyzing external forces
- E. Meeting Dynamics
1. Asking questions, rapport with CEO, other staff
 2. Committee involvement and reporting
 3. Presentation and discussion techniques
- III. What ARE the Risks?
- A. Eight Major Risks
1. Capital Adequacy
 2. Liquidity
 3. Asset Quality
 4. Interest Rate
 5. Off-Balance Sheet
 6. Operational
 7. Internal Control
 8. Litigation
- B. The "Mobile" Effect
- C. Overall Performance as the Ninth Issue
1. Traditional reports need context and depth
- IV. Analysis of Each Risk
- A. Capital Adequacy
1. Description
 2. Context
 3. Ramifications
 4. Relationships to other risks
 5. Warning signals
 6. Action to be taken
 7. How do directors "direct" risks and "manage" risks?
 8. Which policies affect each risk

9. Elements of sound policy for these risks
10. Reports/diagrams/key elements for review
11. Exercises/examples/discussion questions

B. Liquidity

1. Description
2. Context
3. Ramifications
4. Relationships to other risks
5. Warning signals
6. Action to be taken
7. How do directors "direct" risks and "manage" risks?
8. Which policies affect each risk
9. Elements of sound policy for these risks
10. Reports/diagrams/key elements for review
11. Exercises/examples/discussion questions

(SAME OUTLINE FOR EACH OF THE OTHER RISKS)

C. Capital Adequacy

1. Components
2. Understanding differences
3. Risk-based capital
4. Projections for the future

D. Liquidity

1. Projections of sources and uses of cash
2. Focus on the future
3. Timing
4. Specific test
5. Holding company/affiliates

E. Asset Quality

1. Valuation
 - a. delinquency
 - b. non-performing loans
 - c. real estate owned
 - d. asset classification
 - e. valuation
 - f. quality
 - g. credit concentration

2. Activity
 - a. new loans
 - b. investment in subsidiaries
 - c. insider transactions
 - d. investment securities
 - e. trading account securities
 - F. Interest Rate Risk
 1. Interest rate vs. Asset/liability management
 2. GAP, Duration
 3. projected impact of changing rates
 4. Interest rate forecasts
 - G. Off-Balance Sheet Risk
 1. Types and reasons for activity
 2. Potential impact on other risks
 - H. Operational Risk
 1. Includes data security, contingency planning
 2. Settlement risks - often electronic
 3. Filing and documentation
 - I. Internal Control Risk
 1. Compliance controls
 2. Internal audit functions and line of authority
 3. Review/action re: external audits and examinations
 - J. Litigation Risk
 1. Potential impact
 2. Different liabilities
 - V. Use of Committees
 - A. Why use committees? Divide and conquer!
 - B. Proper functioning:
(whole) decisions vs. (part) review of information
 - C. Delegation vs. total board responsibility
 - D. Focus on policies
 - E. Committees
 1. Focus on transactions
 2. Rotation of membership
 3. Varied expertise
 - VI. Conclusion
-

CAPITAL REGULATIONS (Course Outline)

I. BACKGROUND AND OVERVIEW FOR CAPITAL REGULATION

This module prepares participants to explain the rationale for the new capital standards and identifies the new capital standards. It provides a historical background and overview of the risk-based capital regulation and presents the rationale for changing from the old liability-based approach to the new asset-based approach.

II. TANGIBLE AND CORE CAPITAL STANDARDS

This module prepares participants to explain and analyze new tangible and core standards, define components of tangible and core capital, define the tangible and core asset bases and determine if a thrift meets its tangible and core capital requirements. It explains and analyzes the tangible and core capital standards and covers the mechanics of calculating the tangible and core capital standards. The module uses examples and practice exercises to review the major components of the calculations.

III. RISK-BASED CAPITAL STANDARD

This section teaches participants to explain and analyze the risk-based standard and its underlying ratios, define the components of adjusted total capital and the asset base for risk-weighted assets. It presents the risk-weight categories and explains the conversion process and risk-weighting of off balance sheet items. The course also discusses the rationale for risk-weighting assets. This instruction is supplemented by eight exercises and a case study.

IV. CONCLUSION

This section prepares participants to:

- Identify the major capital compliance areas of the capital regulation.
- Identify areas of inaccurate reporting and potential confusion related to the capital standards.
- Explain the relationship between the risk-based capital regulation and the pending early intervention, interest-rate risk, and marginal capital regulations.

It provides an overview of the major areas examiners must review to determine if thrifts are meeting their capital requirements.