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# RESCINDED

This document and any attachments are superseded by  
Comptroller's Handbook - Community Bank Supervision.

## Post Examination Activities

### ISSUANCE OF THE TRUST AND ASSET MANAGEMENT EXAMINATION REPORT

Include trust department examination findings in the type 16, 17, or 46 comprehensive examination report. In the case of a type 76 examination, issue the report in accordance with the guidance provided in the Trust Only section of the handbook.

Issue all examination reports to the savings association's board of directors as soon as practicable after the completion of the on-site portion of the examination. The overall impact and usefulness of the report directly correlates to the timing of its issuance. The passage of an unreasonable length of time between completion of the on-site examination and the issuance of the report may give a false impression to the savings association that problems noted during the examination and contained in the report are not serious.

Regional offices should develop internal procedures to process trust and asset management examination reports in a timely manner in order to enhance its impact and achieve maximum utility.

### TRANSMITTAL LETTERS

A letter to a savings association's board of directors attached to the examination report officially transmits the report. The type 16, 17, or 46 examination report's transmittal letter covers the trust activities.

The transmittal letter gives the date the examination began and explains that the report of examination summarizes the conditions, policies, practices, and trends that affect the institution. The letter also indicates that the report of examination summarizes major items of concern, matters of criticism, and violations of law and regulations. The letter reminds the board of directors that all the concerns identified in the report of examination require the board and management's prompt corrective action. The board is asked to review the report in its entirety at its next meeting, note their review in the minutes of the meeting, and adopt any corrective actions called for in the examination report. The board is also asked to notify OTS of what actions it took, or will take, regarding each point discussed in the Matters Requiring Board Attention section of the report.

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## MEETINGS WITH MANAGEMENT AND THE BOARD OF DIRECTORS

You must disclose MOECA ratings at exit conferences with senior trust management and, when appropriate, the board of directors. If ratings have not been finalized by your regional management, you should convey to trust management that the ratings are tentative and subject to change.

## MANAGEMENT DISCUSSION

During the discussion with management, you should explain the criteria you considered in assigning each rating as well as the overall composite rating. You should indicate that you based the composite rating on a careful evaluation of the criteria comprising each MOECA component, the interrelationship between components, and, more importantly, the overall level of supervisory concern. You should clarify that you did not base the composite rating on an arithmetic average of the components.

The quality of management is the single most important element in the successful operation of an association, and is usually the factor that is more indicative of how well the association identifies, measures, monitors, and controls risk. For this reason, you should take sufficient time to explain to senior trust management and, when appropriate, to the board of directors, the criteria you considered in assigning the management component rating, and the meaning of the rating. Your written comments in support of the management rating should include an assessment of the effectiveness of existing processes to identify, measure, monitor, and control risk. Finally, you should remind management that the rating disclosed in the examination report remains subject to the confidentiality rules imposed by OTS regulations. This includes the verbal disclosures made at the conclusion of the examination.

The objectives of the closing conference are to inform the chief executive officer (and/or other senior management) of your evaluation of the department's condition and to reach agreement, where possible, on the accuracy of the issues presented and management's commitment to initiate appropriate corrective or other action based upon the examination findings. The closing conference should leave management with a clear understanding of what items will appear in the report of examination and what the overall tone of the report will be. You should present findings and conclusions as well as the potential composite and individual MOECA component ratings and be receptive to any evidence presented by management that is contrary to those findings and conclusions. You should only discuss critical items that appear in the report of examination at this closing conference.

The personnel with whom you should discuss the examination findings depend upon the nature of the findings, the structure of the savings association, and past experience in communicating and correcting adverse matters. Isolated, technical, or other nonsubstantive findings should be presented to the individual responsible (assuming they should be presented at all), such as the operations officer or the account administrator responsible for the individual account. You should present overall or significant findings and trends to senior management of the department and the chief executive officer of the savings association. You should present adverse findings related to audits to the internal auditor or audit committee.

The OTS examination approach emphasizes the role that a savings association's board of directors plays in establishing policies and procedures for the safe and sound operation of its trust and asset management activities. Since the OTS believes that board members, particularly trust committee members, should be involved in the regulatory process, it is important that they have an opportunity to meet with you following an examination. Therefore, the practice of meeting periodically with the trust committee (or similar committees having board of directors' representation) and the full board of directors is encouraged. Participation in such meetings allows you to communicate examination findings to a broad audience and fosters open communication, which should result in a better understanding of the respective roles of management and examiners. You should also be able to evaluate the knowledge and degree of involvement by those personnel in the operation of the trust department.

### MEETINGS WITH THE BOARD OF DIRECTORS

In addition to meeting with trust management, OTS encourages you to meet with the boards of directors. Meetings between regulatory staff and the board of directors, the individuals ultimately responsible for a savings association's affairs, serve a variety of functions. They provide opportunity for interaction and they facilitate long-term communication, which is especially important when the regulatory process reveals significant adverse information. Meetings help to keep directors and regulators mutually informed by providing them an opportunity to discuss any of the following items:

- the examination process and findings
- the institution, its functions, strategic plans, and goals
- the general financial environment
- industry-related concerns

### TYPES OF MEETINGS

There are two primary types of meetings between regulators and the board, regular and special. Generally, discussions of examination-related matters occur at regular meetings. Special meetings are held for purposes other than the specific presentation of examination findings. However, any meeting may serve more than one purpose. For example, meetings called by regulatory staff to implement a formal enforcement action are often the direct result of examination findings, even though the meeting itself is not technically examination-related.

The meetings should foster a working relationship with those individuals who are directly responsible for the management of the trust department. Meetings must be constructive and conducted in a clear, concise, and orderly manner, accompanied by a written agenda presented to the attendees. Success depends entirely on the substance of matters discussed and the effort expended to prepare for the meeting.

## Regular Meetings

Regular meetings may result from a regular or limited examination. In either case, they are held at the conclusion of the examination. Its primary purpose is to discuss examination findings and agree on corrective actions. These meetings can also enhance the directors' understanding of the regulatory process, establish a rapport, and build lines of communication.

You should consider attending a regularly scheduled board meeting that occurs during an examination. The purpose is not necessarily to discuss findings although it may be an opportunity to discuss scope and preliminary findings. The main objective is to observe the board in action and establish a rapport.

You should hold a meeting if you note negative trends, an increased risk profile, or other matters that need the board's attention. If no such issues exist, you may honor any request from management to forgo a meeting with the board. You must meet with the board of directors if:

- The MOECA composite rating is a 4 or 5
- The MOECA composite rating is a 3, if the rating represents a downgrade from the previous examination

While you normally meet after the examination, you could arrange a regular meeting during the last week of the examination. This is appropriate if you have already discussed the examination results with senior management. Your meeting can also coincide with the board's next regularly scheduled meeting. You can mutually agree on another time to meet as long as that date is within 60 days of completing the examination. Also when scheduling, consider whether directors would benefit from receiving a copy of the ROE before the meeting.

## *Participation*

When meeting with the board, you should meet with the entire board to ensure all directors are aware of regulatory findings and commitments to correct deficiencies. If not all directors can attend, you can meet with a group, such as the audit, examination, or executive committee if:

- Outside directors are present
- There are no material or adverse findings
- The circumstances do not require a full board

Honorary directors can participate in meeting discussions, but may not vote. Any person or organization connected with the association, auditor, or holding company representative can attend the meeting upon board resolution. However, you can excuse such people if appropriate. As a rule, state supervisory authorities should attend meetings with the boards of state-chartered institutions.

## Special Meetings

Reasons to schedule a special meeting include the following:

- To effect a supervisory action, such as a supervisory agreement or cease and desist order
- To gather information in order to act on a proposal, application, or request by the association
- To discuss an association's progress toward corrective action
- To become acquainted following a change in directorate or a change in regulatory staff
- To comply with directorate or regulator requests to meet

## MEETING PREPARATION, PRESENTATION, AND DOCUMENTATION

Schedule a mutually acceptable, convenient date and time to hold the meeting. Prepare yourself thoroughly when meeting with the board. Conduct your meeting professionally and prepare sufficient documentation to ensure appropriate follow-up. You should be prepared to discuss possible methods for achieving correction of any deficiencies noted. The directorate should be encouraged to discuss any matters of interest. A successful meeting will include all of the following steps:

- Preparation
  - Ensure that the scheduling and selection of attendees satisfies the meeting goal
  - Choose attendees and determine their responsibilities
  - Select a chairperson
  - Determine time and location
  - Develop an agenda
  - Notify participants of the meeting and its purpose
  - Meet with regulatory staff participants to discuss the agenda and other related issues
  - Prepare and organize supporting data, including comparative figures and ratios that indicate trends and graphs to illustrate significant points or trends
  - Prepare any handouts or overheads for presentation

- Presentation
  - Conduct the meeting in a professional, objective fashion
  - Present the agenda and follow it within reason
  - Establish good communication and maintain credibility
  - Encourage directors' involvement and solicit questions
  - Answer questions accurately. When unable to do so, tell the board you will find an answer. You may need to refer inquiries to the OTS regional or DC offices.
  - Obtain commitment from board to correct deficiencies, if appropriate
- Documentation
  - Evaluate and document results of the meeting
  - Prepare a memorandum to record results, date, time, location, and participant's names and titles
  - Describe the items discussed, the board's reactions, and any commitments for corrective action
  - If the board promises corrective action, send the memorandum to the board in concurrence
  - At the conclusion of any meeting conducted by the board (rather than the regulators), you should ask for a copy of the minutes and review them for accuracy
  - Keep a copy of the post-meeting memorandum and agenda in the appropriate supervisory file
  - Amend the association's regulatory profile to reflect any changes or future commitments as a result of the meeting

## POSSIBLE AGENDA ITEMS

The following issues, while not all-inclusive, would warrant the board of director's attention and therefore may be included in the meeting agenda:

- A comparison of the savings association's policies, practices, and reporting systems with those one would expect to find in a well-managed institution of comparable size and offering similar services

- Senior management's efforts to correct deficiencies in policies, practices, and reporting systems
- The department's system of internal controls, including the risk management, compliance, and audit programs
- The extent to which senior management and directors are receiving information needed to manage and govern the affairs of the department effectively
- Depth in trust management personnel
- Any significant concerns or observations regarding the quality of earnings
- Management's long term plan
- The board's and/or trust committee's involvement in the department's affairs

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