

NCUA BULLETIN

NO. 4010B

DATE: September 6, 2013

SUBJECT: Examination Report Changes

TO: All NCUA Staff

REF: NCUA Instruction 4010 (Rev. 1)

ENCL:

- 1) Chapter 11, Section 3 of the National Supervision Policy Manual (NSPM)**
- 2) Chapter 13 of the NSPM**

- 1. PURPOSE.** To improve consistency, enhance overall problem resolution, and reduce redundancy in the examination report, NCUA is amending the format for writing the Document of Resolution (DOR) and Examiner's Findings. Additionally, NCUA is clarifying how examiners should use each document to outline problems identified during the examination process.
- 2. CANCELLATION.** This NCUA Bulletin:
 - Cancels Chapter 11, Section 3 of the National Supervision Policy Manual (NSPM) and replaces it with Enclosure 1.
 - Incorporates a new Chapter 13 titled *Examination Report Writing* (Enclosure 2) into the NSPM.
- 3. BACKGROUND.** The current format for writing and issuing Examiner's Findings and the DOR results in examiners documenting the same or similar information in multiple places throughout the examination report. Additionally, the current practice makes it harder for the reader to distinguish between material and less material concerns.

Communicating problems and required corrective action to credit union management through the examination report is a vital part of the examination process. The process inherently relies on examiner judgment. To promote consistency, the attached Chapter 13 of the NSPM provides a standard definition of problems that should be included in the DOR. This standardized terminology does not alter the risk-focused examination process, but attempts to clarify what examiners should include as a DOR item versus what examiners should only address in the Examiner's Findings.

Below is a summary of the key changes and the rationale for each change.

Separation of Examiner's Findings and DOR

Under the current format, examiners document the finding, or problem, in the Examiner's Findings and then document the corresponding corrective action in the DOR. Under the amended guidance, when examiners identify a problem they will document it in either the Examiner's Findings *or* the DOR, depending on the severity of the problem. If the problem presents a material risk to the credit union, the examiner will document the problem and the corresponding solution in the DOR. Examiners will now document both the problem and solution in just one document. This links the identification and support for the problem with the necessary corrective action. If the problem does not meet the definition of a DOR item, the examiner will document it in the Examiner's Findings.

Revised Definitions for DOR and Examiner's Finding

This change was made to help the reader differentiate between major and minor problems and to help prioritize corrective action. As described above, examiners will only use the DOR to document *material* problems and the corresponding corrective action. Chapter 13 of the NSPM provides additional guidance on what examiners should consider material. Examiners will use the Examiner's Findings to document problems less material in nature, but that the credit union must still correct.

Chapter 13 of the NSPM contains additional discussion on the DOR, writing DOR items and Examiner's Findings.

Changes to the Examination Report Documents

The table below includes a summary of the changes to the examination report.

Document	Current Format	New Format
Examination Overview	Examiners document the credit union's CAMEL and risk ratings in the Examination Overview. Additionally, examiners often include detailed discussion of the problems identified and the corrective action necessary.	Examiners will document the credit union's CAMEL and risk ratings and include a high-level discussion of the credit union's risk profile, financial trends and progress in correcting prior concerns.
Document of Resolution	Examiners document agreed upon corrective action plans in the Document of Resolution.	Examiners will document and provide detailed support for problems meeting the DOR definition outlined in Chapter 13 of the NSPM and the corresponding corrective action.
Examiner's Findings	Examiners document problems identified during the examination in the Examiner's Findings.	Examiners will document problems identified during the examination that do not meet the definition of a DOR. Examiners may provide the corrective action plans when necessary.

Informal Discussion Items	Examiners use this document for a variety of purposes. Some provide recommendations and discussions while others use it to document minor findings. Sometimes it is included in the official examination report and other times it is provided only to operational management.	Removed. Examiners will now document any problem the credit union must take action on in the Examiner's Findings or DOR and include it in the official examination report. Recommendations or informal discussions can be documented in the Supplementary Facts.
Supplementary Facts	Examiners use this form for a variety of purposes. Because of NSPM requirements, many examiners include the status of the DOR or outstanding administrative action in the Supplementary Facts.	Examiners may use this form to provide recommendations or suggestions, but must document them as such. Examiners can also use this form to provide additional information to support other documents in the examination report (Examiner's Findings, DOR, etc.). However, if the information provided refers to corrective action the credit union must take or issues that affect the credit union's operations, the form must be included in the official examination report provided to credit union officials.
DOR Status Report	The status of the DOR is documented in a variety of places including the Supplementary Facts, excel workbook, or blank word document.	The DOR status report will generate automatically from the comments input into the DOR Module.
Status Update Template	The status of administrative actions are documented in a variety of places including the Supplementary Facts, excel workbook, or blank word document.	Examiners will now use this template to provide the status of outstanding administrative action.

In conclusion, examiners should use sound judgment in classifying problems and determining appropriate corrective action plans. Additionally, examiners need to consider how identified risks and unresolved problems affect a credit union's CAMEL and risk ratings. The revised policies attempt to correct inconsistencies in how examiners use examination report documents. Separating the DOR and Examiner's Findings documents and better defining the role of the Examination Overview will reduce the number of places examiners must document the same information. Additionally, instructing examiners to include only material problems in the DOR will result in more effective, enforceable DORs and ensure credit unions prioritize corrective action.

4. **POLICY.** See the attached documents for the revised policy.
5. **EFFECTIVE DATE.** This bulletin is effective for examinations started on or after January 1, 2014.

/s/

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E&I

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