



Insights

FEDERAL RESERVE BANK OF PHILADELPHIA

A newsletter published by the Supervision, Regulation & Credit Department for the institutions that it supervises.

Volume 8 Issue 2

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SVP Commentary on... New Faces in SRC

On September 30, 2003, Bernie Wennemer, Assistant Vice President in Regional and Community Supervision, said goodbye to SRC staff as he moved on to the next stage in his career – retirement! With more than 35 years in banking supervision, Bernie was well known to many bankers in the District and took with him a wealth of knowledge that he had acquired over the years. Please join with me in wishing Bernie well in all of his future endeavors!

While we will miss Bernie’s experience and perspective, we are fortunate that we have a strong group of senior staff who are ready to assume greater responsibility. For the institutions that we supervise, you will see familiar people assuming greater responsibility, and the transition should be seamless. In addition, I do plan to meet or talk with many of you over the coming months—whether individually, at Bankers’ Forums, or at the Bank’s annual field meetings—to introduce you to the new members of our official staff and discuss our holistic supervision strategies for the future. ■



Costs of Funds: A Comparative Analysis

by Joanna H. Frodin, Vice President and Vincent J. Poppa, Supervising Examiner

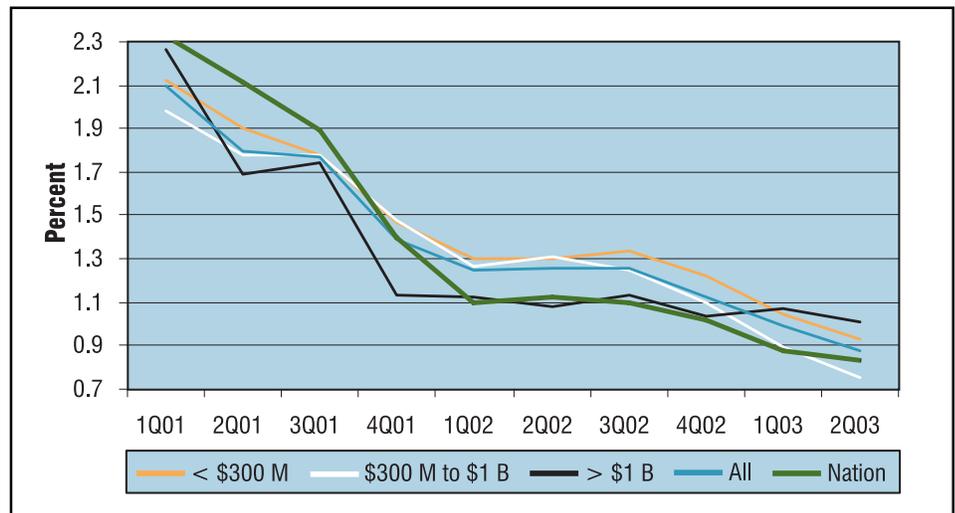
At a recent Bankers' Forum at the Reserve Bank, a banker from a 'small' bank noted the relatively high cost of funds the bank faced, from a competitive perspective. Theory would suggest that larger banks would be able to obtain funds at lower costs than smaller banks in a competitive market. From this banker's observation, two questions arose: first, are there substantial differences in the cost of funds, or its components, across institutions of different asset sizes in the Third District? and, second, how do costs of funds in this District compare to those in some other Districts, as well as in the Nation on average?

Some comparative analysis of trends and relative costs indicates that the Third District, with a large number of banks per capita, has a highly competitive banking market. Some inter-District comparisons suggest that the Third District has a pricey market for small/medium bank funds. Additionally, analysis has shown that there appear to be some post 9/11 effects in relative cost structures. For some types of deposits, it now costs relatively more for smaller institutions to attract funds post 9/11 than for larger institutions.

Third District Cost of Funds

The total cost of funds comprises the interest paid on deposit accounts (NOW accounts, savings deposits, large CDs, and small CDs), and on borrowings (Fed Funds purchased, term Fed Funds, Federal Home Loan Bank (FHLB), Discount Window¹, and commercial paper)². The data for

Chart 1. Third District NOW Accounts



the Third District include adjustments for mergers and acquisitions (M&A) and growth, so as to maintain the same sets of peer banks over the time period from 1Q01 to 2Q03. The categories of bank sizes are small (<\$300 million), medium (\$300 million to \$1 billion), and large (>\$1 billion). These sets of banks exclude credit card banks and specialty banks. The data for other Districts and the Nation do not include the M&A adjustments or exclude credit card banks. As a result, peer comparisons are not exact, but somewhat generalized.

NOW accounts (Chart 1). Two things are notable in the comparison of interest paid on NOW accounts

over this period. First, prior to 9/11 (3Q01), the interest small and medium Third District banks paid fell below the national average. Post 9/11, from 4Q01 through 1Q03, small and medium institutions appear to have paid some premium to continue to keep and attract NOW account deposits. In 2Q03 however, the premium paid by medium-sized institutions appears to have disappeared. Second, large Third District banks may have benefited from size in the post 9/11 period, but also by proximity to large money center banks with lower interest rates. However, for the past two quarters, large Third District banks appear to be paying relatively higher rates, perhaps to retain deposits.

Savings Deposits (Chart 2). Overall in the District, Savings Deposits account for 46 percent of all deposits and 39 percent of total funds obtained. Savings accounts (MMDAs and passbooks) represent 54 percent of deposits at large banks, 41 percent

¹ Borrowings from the Discount Window subsequent to recent policy changes have been negligible.

² Trading Liabilities cost is also a component, but immaterial in the Third District.

at medium-sized banks, and 30 percent at small banks (Table 1). The trend behavior of interest rates paid on savings accounts from 1Q01 to 2Q03 shows a clear inverse relationship between rates paid and bank size. Smaller banks pay the highest rates, while large banks pay the lowest.

One explanatory factor, apart from sheer size, for a consistent pattern of relatively higher rates for small institutions is the relatively large number of *de novo* banks, 29, or 27 percent of banks in this group. These banks have had to pay higher rates to attract funds, all other things equal.

Chart 2. Third District Savings Deposits

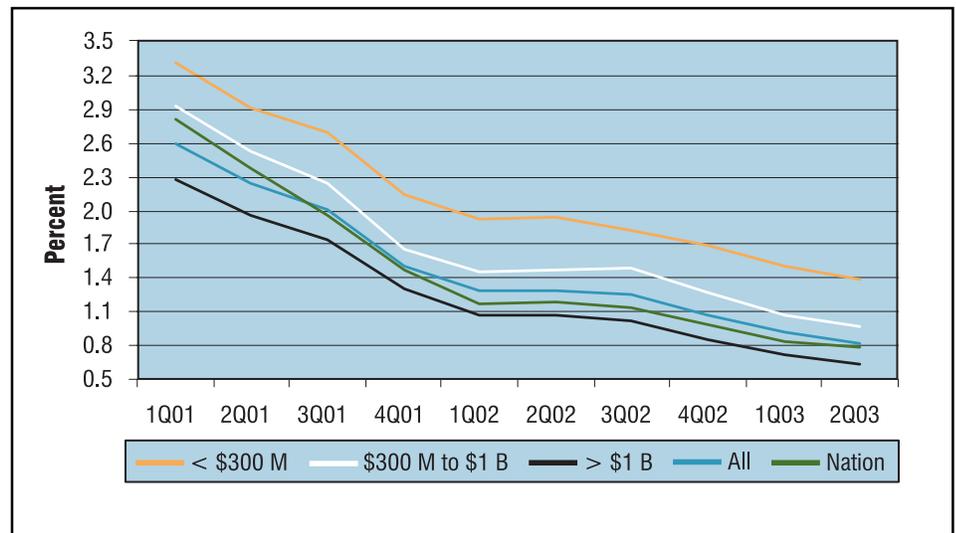
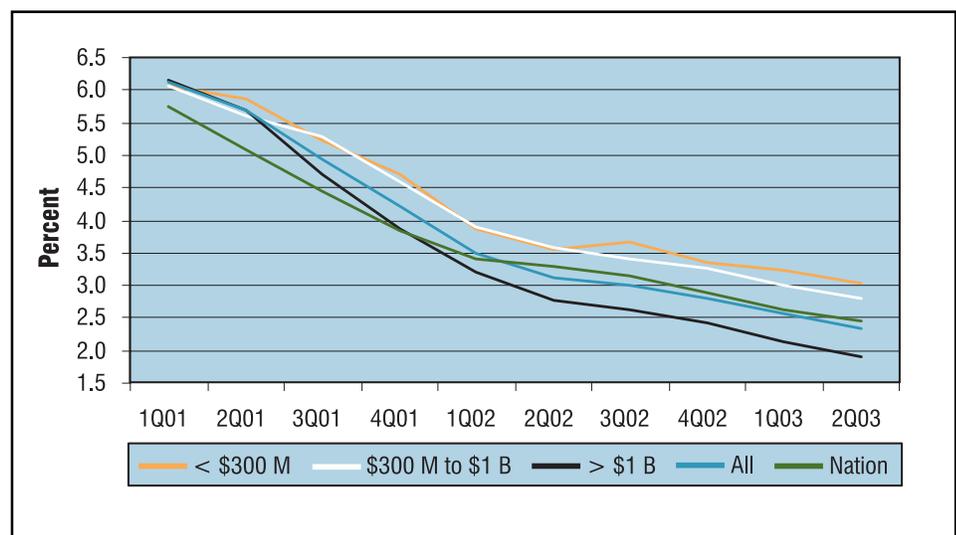


Table 1.

Funding Sources	District Commercial Banks' Funding Sources							
	Savings as % of		Small CDs as % of		Large CDs as % of		Borrowings as % of	
	Deposits	Funds	Deposits	Funds	Deposits	Funds	Deposits	Funds
Small	30%	27%	33%	30%	13%	12%	7%	6%
Medium	41%	34%	30%	25%	9%	8%	14%	12%
Large	54%	45%	18%	15%	13%	11%	9%	8%
All	46%	39%	24%	21%	12%	10%	10%	9%

Large CDs (Chart 3). The structure of CD rates and resultant costs across banks of different sizes changed with the advent of 9/11. Prior to 9/11, the costs faced by all size categories on large CDs tracked together and stood above the national average. Post 9/11, it appears that small and medium institutions have had to pay premium rates to attract this type of deposit.

Chart 3. Third District Large CDs



Small CDs (Chart 4). While banks depend on small CDs as a funding source (33 percent, 30 percent, and 18 percent of deposits for small, medium, and large banks, respectively), small CD deposits grew very little compared to savings deposits as money flowed out of the stock market. Expectations of interest rate increases, rather than further decreases, contributed to customers' unwilling-

ness to lock in long-term CD rates. Since 3Q01, there has been no divergence in cost of small CDs across institutions' sizes. Banks may have

tied the rates offered to LIBOR, or played follow the leader. CD advertising on the Internet and the ease of rate shopping also may have played a

Chart 4. Third District Small CDs

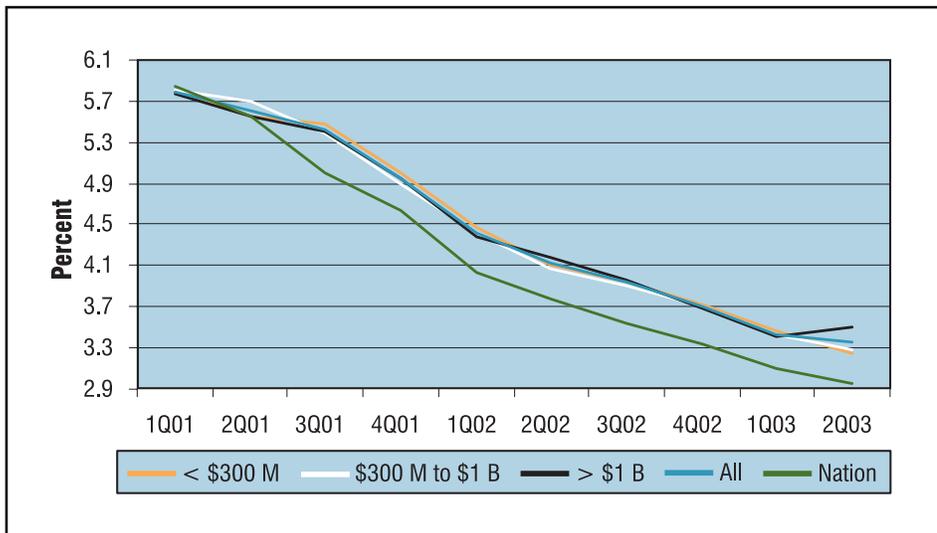


Chart 5. Third District Borrowings

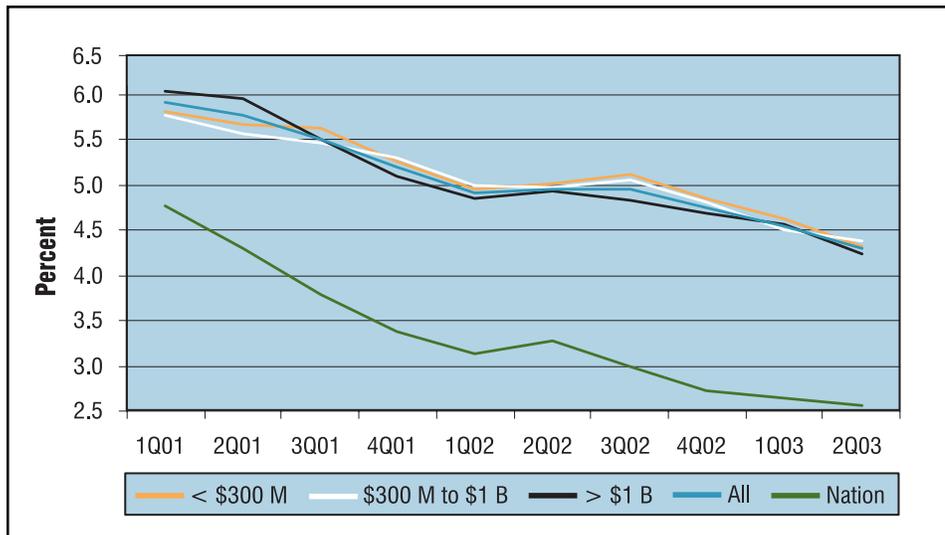
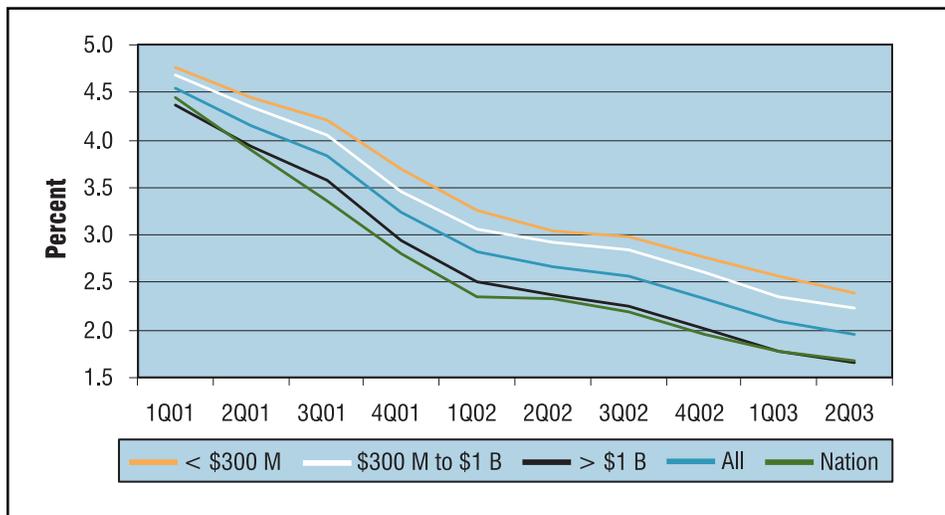


Chart 6. Third District Overall Cost of Funds



role in establishment of almost identical rates.

Borrowings (Chart 5). Borrowings include purchases of Fed Funds, advances from the Federal Home Loan Bank, loans from correspondent banks, and other sources, such as commercial paper sales. Third District banks are net sellers of Fed Funds and appear to pay relatively low rates when they borrow in that market. Looking at Other Borrowings, however, there is a striking difference between the rates paid by Third District banks of all sizes and the national average. This spread has widened as well over this period, to 175bp, as of 2Q03.

This difference is fairly easy to explain. The main sources of borrowings are commercial paper (CP) and the FHLB. The CP rates paid by large, money-center banks, about 100+bp, drive the national average costs. By contrast, most Third District bank borrowing represents FHLB advances at considerably higher rates.

A significant 60 percent of FHLB borrowings are in maturities of over 3 years. Many banks borrowed at rates near 6 percent three or more years ago and face high average borrowing costs, despite the very low, current interest rate environment. The average ratio of borrowings of longer than one year to total FHLB borrowings among this District's borrowers is 77 percent. Total FHLB borrowings represent 10 percent of deposits and 7 percent of total assets.

Overall Cost of Funds (Chart 6). The overall cost of funds for deposits plus borrowings indicates that, while average costs have fallen, the expected reverse relationship between

size and costs has persisted. Furthermore, the premium paid by small and medium institutions since 9/11, measured by the spread, appears to have increased somewhat. Size appears to have provided some added advantage in attracting deposits in the more uncertain post 9/11 environment. The market appears to have become more competitive for small and medium banks.

Interdistrict Comparisons

The second question to address is whether or not Third District deposit/borrowing costs are higher or lower than in other Districts. We chose two Districts, Chicago and Atlanta, that have a mix of large regional, medium, and small institutions, and a third, Kansas City, that has a preponderance of community banks.

Looking at the overall cost of deposits (Chart 7), the Philadelphia District's costs stand slightly higher than those in Atlanta, Kansas City, and Chicago, despite compression of these interest costs since 1Q01. As of 2Q03, these four Districts' deposit costs were 21 to 27 bps above the national average.

On a component basis, some compression of rates paid has occurred for NOW and savings accounts, but the reverse has occurred for large CDs and small CDs and there appear to be regional differences larger than those in 1Q01. This development may reflect differential post 9/11 uncertainty effects in the large CD market, but it is difficult to know. As of 2Q03, Third District banks faced a cost of 20 to 46 bps more for small CDs than banks in these other Districts. Different patterns of run-off of short-term CDs may help explain the differences, as may some post 9/11 effects.

Chart 7. Overall Cost of Deposits by District

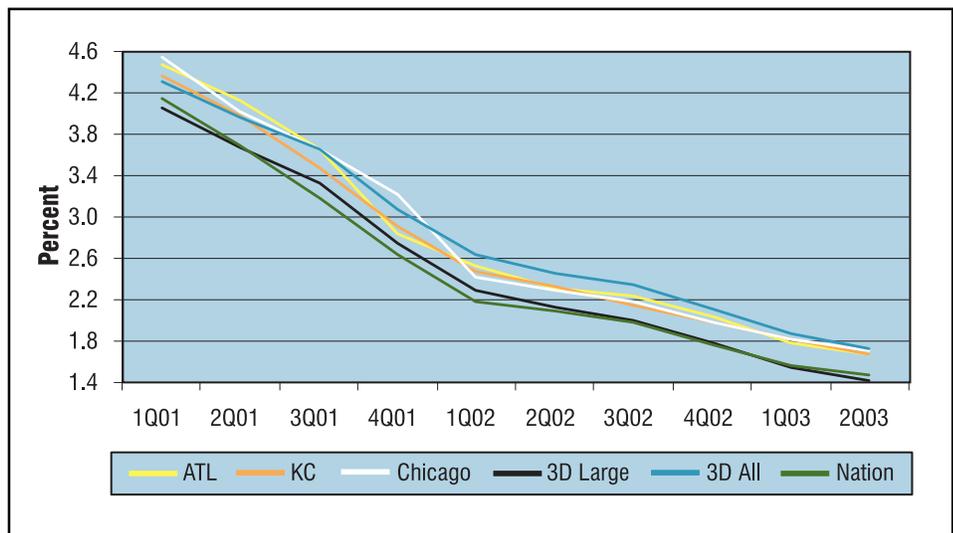
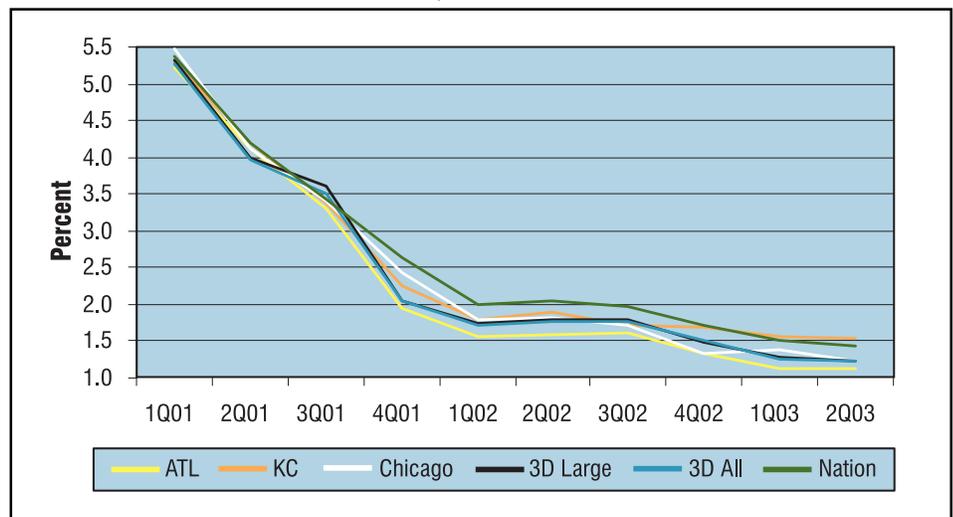


Chart 8. Fed Funds Purchased by District



Turning to comparisons of types of Borrowings (Charts 8 and 9), the rates on purchased Fed Funds, which showed little dispersion across Districts prior to 9/11, show more divergence as of 2Q03. The rates paid by banks in the Philadelphia, Atlanta, and Chicago Districts fall 32-43bps below those of Kansas City and 19 to 30 bps below the national average. Other borrowings, made up primarily of commercial paper, FHLB advances, trading liabilities, and term Fed Funds, show distinct differences. Third District costs surpass the nation's average (driven by the CP

rate) as mentioned above, but they also exceed those of the Atlanta, Kansas City, and Chicago Districts by a wider margin than in 1Q01. Chicago's lower rates may reflect more activity in the CP market. Use of term Fed Funds also may be a factor in Atlanta and Kansas City, as may different tenors of FHLB borrowing. Regardless, Third District activity in FHLB borrowing, with a relatively high percentage of long-term maturity advances, appears to have resulted in higher Third District borrowing costs. Therefore, as of 2Q03, the Third District average topped the

Chart 9. Borrowings by District

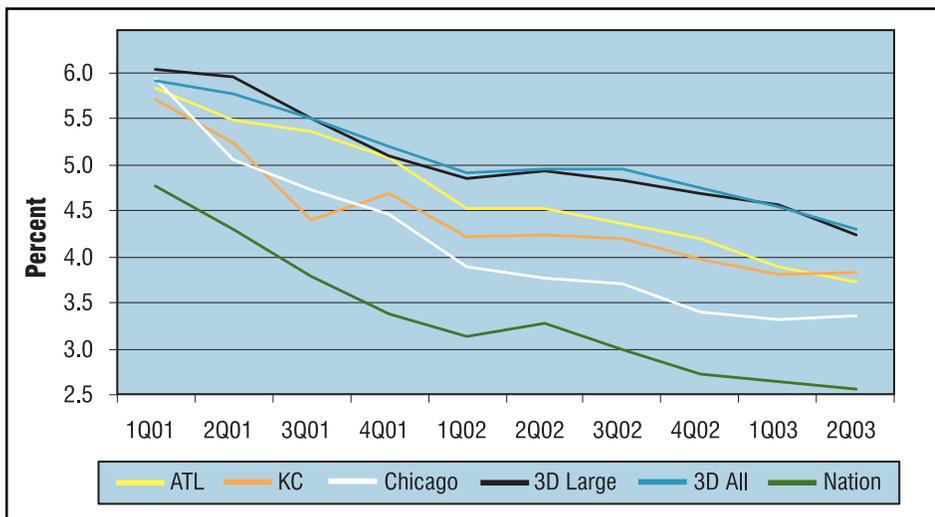


Chart 10. Cost of Funds by District

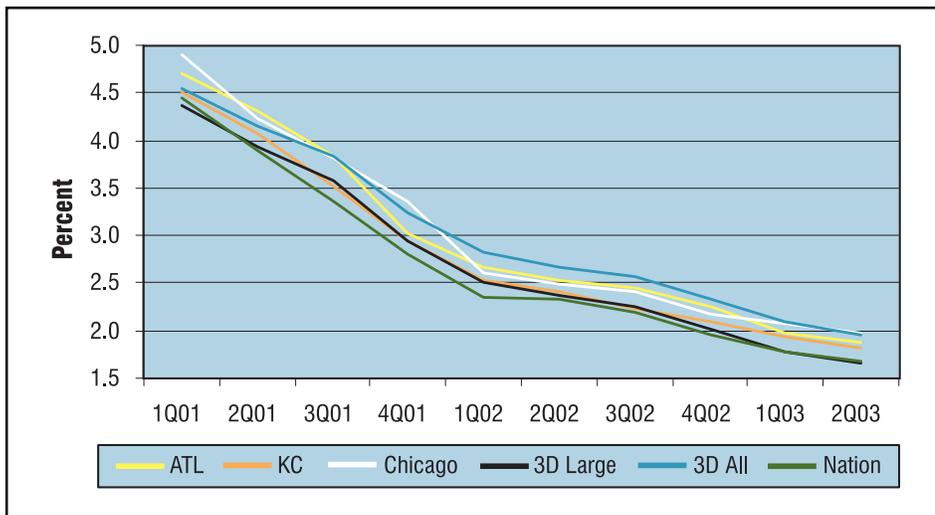
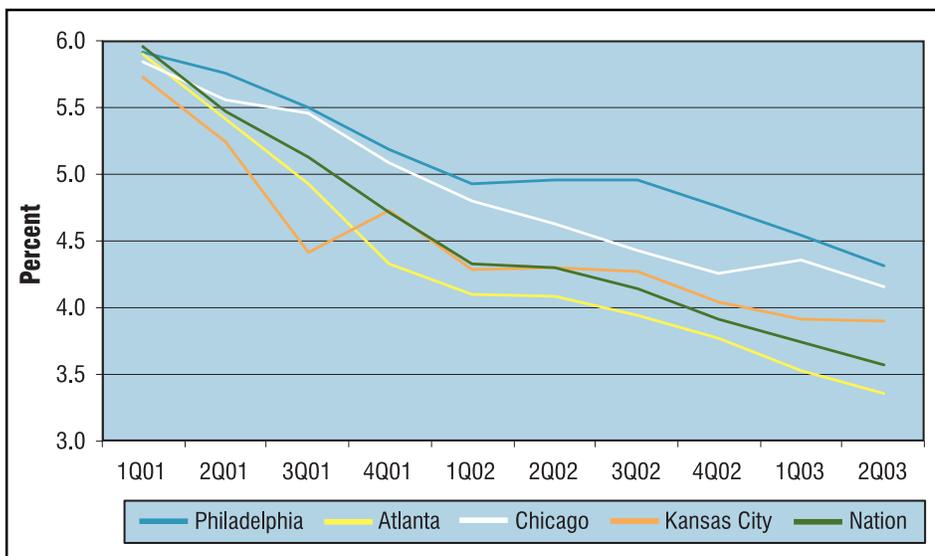


Chart 11. Cost of Borrowings for Commercial Banks with Assets Less than \$10 Billion



Cost of Funds chart (Chart 10).

The Borrowings in Chart 9 show data for banks in several Federal Reserve Districts and the Nation representing banks of all sizes. Given the inclusion of the largest banks with access to the CP market, where borrowing costs are relatively low, it would be interesting to look at a subset of banks with assets less than \$10 billion for District comparisons of borrowing costs.

Chart 11, which displays these relative costs, shows increased divergence of costs post 9/11 and confirms the higher borrowing costs associated with these Philadelphia District institutions. For this subset, the Atlanta District banks' average borrowing costs are close to 100bp lower than Philadelphia's. The relative positions of costs in other Districts change for this subset compared to the all bank picture.

Conclusion

The analysis and observations drawn from the cost of funds data for the period 1Q01 to 2Q03 have confirmed the 'small' banker's sense that the banking market in this District is very competitive. Not only did the data show the expected, an inverse relationship between size and cost of funds, but it revealed the probable existence of a post 9/11 effect that has given size some additional comparative advantage. The data also revealed that the Third District large banks that have relied on long-term maturity advances from the FHLB for some of their funding have the highest relative borrowing costs, compared to the averages of all banks and a subset of banks in several other Reserve Districts and the nation. ■

Importance of Accurate Call Report Data From a Capital Markets Examiner's Perspective

by Avi Peled, Senior Financial Specialist

Commercial banks submit income and balance sheet data to federal bank regulators in their quarterly *Consolidated Reports of Condition and Income*, referred to as Call Reports. Bank holding companies with consolidated assets of \$150 million or more submit the *Consolidated Financial Statements for Bank Holding Companies* (FR Y-9C) report to the Federal Reserve System. To ensure accountability, an authorized officer must sign the Call Report and, by doing so, declare that the Call Report was prepared in accordance with the instructions issued by the institution's federal regulatory authority and contains accurate data. In addition, directors (two for state non-member banks and three for state member and national banks) must attest to the correctness of the Call Report.

Federal bank regulators use Call Report and BHC report data to analyze the risks to bank and holding company balance sheets and income streams. Regulators also use the data to monitor the health of the banking industry by different bank segments and geographical areas, and in the aggregate. Much of the data in financial regulatory reports is publicly available, providing information for investment analysts and other members of the public. Incorrect data provides a false view of the reporting institution and can distort aggregate statistics, while also reflecting poorly on management and internal controls. With corporate governance and fi-

nancial transparency issues so prominent among the investing public's concerns, it is critical that public

Incorrect data provides a false view of the reporting institution and can distort aggregate statistics, while also reflecting poorly on management and internal controls.

regulatory reports accurately reflect a financial institution's condition.

While inaccurate reporting can result from management's attempt to conceal information from regulators and the public, most cases of inaccurate reporting probably arise from lack of proper controls or from misunderstanding the reporting requirements for specific line items on regulatory reports. Incorrect data that makes a bank look less risky may have significant safety and soundness implications. However, it is still serious when incorrectly reported data makes the bank look riskier and it gives us an inaccurate understanding of the institution's financial position.

The remainder of this article will highlight some areas where inaccurate reporting in Call Reports and BHC reports is a concern for Capital Markets examiners.

Maturity and Repricing Buckets

Capital Markets examiners focus on an institution's Market Risks, particularly an institution's sensitivity to interest rate risk. To analyze an institution's interest rate risk, it is important for examiners to have a clear understanding of the maturity structure of the balance sheet. For off-site surveillance, examiners rely on the maturity and repricing data reported on Schedule RC-B—Securities, Schedule RC-C—Loans and Lease Financing Receivables, and Schedule RC-E—Deposit Liabilities.

At the Federal Reserve, Capital Markets examiners use an internal model to monitor interest rate risk. This model relies upon maturity and repricing data for assets and liabilities, among other data, to produce a rough estimate of a bank's Economic Value of Equity. Examiners also use this information to compute various ratios to improve their understanding of the financial institution's liquidity position and sensitivity to interest rate movements.

Specific instructions for reporting assets and liabilities in different maturity and repricing buckets are in the Call Report instructions. One area that may require clarification or additional explanation is the difference

between fixed and floating assets and liabilities for reporting purposes. In general, a fixed interest rate for reporting purposes is a rate that is known at origination, or a rate that changes on a predetermined basis according to terms agreed upon at origination, such as a step-up bond. A floating rate is a rate that cannot be known at origination for the life of the asset or liability. Floating rates usually vary in relation to another rate or index, such as a Treasury rate, LIBOR, or the prime rate.

Generally, fixed rate assets and liabilities are reported according to the instruments' remaining maturity without regard to repayment schedules. Floating rate instruments are reported according to the next repricing date when the rate can change, or the contractual maturity date, whichever is earlier. Examiners have found instances where financial institutions' systems were reporting some floating rate instruments according to their maturity, instead of the much earlier repricing dates.

Special provisions exist for reporting loans for delivery in the secondary market. Fixed rate loans that a bank is holding for delivery to the secondary market under a binding commitment must be reported according to the amount of time until the delivery date specified in the commitment. Floating rate loans for sale to the secondary market under a binding commitment are to be reported according to the earlier of the next repricing date or the scheduled delivery date.

Structured Notes

Structured notes are defined in the Call Report instructions as those debt securities, including all asset-backed

securities except mortgage-backed securities and inflation-indexed treasuries, "whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options or are otherwise commonly known as 'structured notes.'" Some examples of structured notes include floating rate debt, where the interest rate is based on a Constant Maturity Treasury rate or a Cost of Funds Index; step-up bonds; index-amortizing notes; dual index notes; de-leveraged bonds; range bonds; and inverse floaters. Securities with adjusting caps or

floors are also considered structured notes. The Call Report instructions provide a more detailed description of what is and is not a structured note.

Structured notes have to be reported on both an amortized cost and fair value basis. Information is collected on the structured notes in a financial institution's portfolio because their complex structures often make it difficult to quantify market risk and examiners monitor the amount of structured notes in bank portfolios to gauge possible market risks.

Despite the lengthy description and examples of structured notes in the

reporting form instructions, uncertainty whether to report certain securities as structured notes may exist. State member banks and holding companies should call their central point of contact at the Federal Reserve for clarification when uncertain whether to classify a security as a structured note.

Mortgage Servicing Assets

Banks that report mortgage servicing assets on schedule RC-M—Memoranda normally should also report data in one of the line items for "outstanding principal balance of assets serviced for others" in the memoranda section

Banks should review the valuation of mortgage servicing assets periodically to determine their fair market value and to recognize any impairment charges, especially during periods of high prepayment and declining mortgage rates.

of Schedule RC-S—Servicing, Securitization, and Asset Sale Activities. Banks should review the valuation of mortgage servicing assets periodically to determine their fair market value and to recognize any impairment charges, especially during periods of high prepayment and declining mortgage rates. Examiners expect that the ratio of the book value of mortgage servicing assets to total mortgages serviced for others would be a reasonable number.

A FAS 149 Reminder on Mortgage Loan Origination Commitments

According to FASB's Financial Accounting Statement No. 149, *Amend-*

ment of Statement 133 on Derivative Instruments and Hedging Activities, mortgage loan origination commitments issued after June 30, 2003 and being held for sale are to be considered derivatives. These commitments must be reported at fair value on the balance sheet. In addition, the par value of the future loans must be reported on Schedule RC-L—Derivatives and Off-Balance Sheet Items as interest rate “over-the-counter option contracts, written options” and as part of the “total gross notional amount of derivative contracts held for purposes other than trading.” The gross positive or negative fair value of these commitments must also be reported in Schedule RC-L as part of “contracts held for purposes other than trading.”

Conclusion

Banks and bank holding companies have the responsibility to report accurately all items on their Call Report and BHC reports. Aside from their regulatory obligations, these in-

stitutions have corporate governance reasons to report accurately the condition of their institutions to federal regulators and the public. A financial institution should also be interested in mistake-free reporting from an operational risk perspective.

Perhaps the easiest check of report accuracy is periodic review of regulatory reports by line officers and executives to verify that the reports reflect their understanding of the financial institution’s condition and policies. For example, if the institution has a policy of not making loans with a maturity or repricing period longer than three years, a substantial balance of loans in the over-three-year buckets should raise a warning flag.

While financial institutions generally do a good job of financial reporting, they should review the reporting process periodically to verify that no inaccuracies have entered either the accounting process or the data or pro-

grams in computer systems. Review is particularly important after mergers and acquisitions, any time changes are made to the reporting process, or when new instructions are received from federal regulators.

Management should consider having internal auditors review the accuracy of its regulatory reports as well as its data collection and accounting process. Early identification and tracking of mistakes can help the institution reduce operational risk and implement strategies for improved efficiency.

State member banks and bank holding companies that have any questions on the proper reporting for balance sheet or income statement items in the Call Report or BHC reports should contact Charles Kirkland (charles.kirkland@phil.frb.org) at (215) 574-6605 or Vince Poppa (vince.poppa@phil.frb.org) at (215) 574-6492. ■

Guidance on Regulatory Applications... ONLINE!

On September 8, 2003, the Board of Governors of the Federal Reserve System announced the addition of an online guide for U.S. and foreign banking organizations submitting applications to the Federal Reserve to its public web site.

The new web site, www.federalreserve.gov/generalinfo/applications/afi/, contains general information about the regulatory requirements and processing procedures for the applications, notifications, and/or requests that companies and individuals must file in connection with a broad range of activities. In addition to general information, the web site also provides links to forms to be filed in connection with a regulatory application, recommended language and publication instructions for newspaper notices, and contacts in the regulatory applications units at each Reserve Bank.

The publication of this information does not change the process that the Federal Reserve System follows to review and assess the merits of a regulatory application. Rather, the web site is intended to provide general guidance related to regulatory applications administrative procedures, and information on the site is not to be construed as absolute standards for approval of a filing. Furthermore, this information is not to be construed as legal advice.

Bank Examiners Aren't Born Bank Examiners: They are Carefully Trained

by Ian R. Harvey, Manager - Staff and Career Development

You receive the phone call you knew was coming: the Federal Reserve examiners will soon be starting the examination of your bank. You recognize the name of the Examiner-in-Charge (EIC), since this is the same EIC from the last examination. However, you wonder how many new faces you will see this time, and how qualified those new people will be. Rest assured that Federal Reserve examiners complete a rigorous training program, consisting of classroom work, self-study, and on-the-job training, to ensure that they are capable of effectively supervising financial institutions. Let's examine the training program...

The staff that examine banks today are both different than and similar to those that examined banks in prior years. While Federal Reserve System (System) examiners are degreed professional staff and many have years of experience outside the System, the type, scope, and extent of System training they receive after being hired has changed significantly in recent years. Examination staff always received a great deal of training, but the structure and training changed with the issuance of letter SR 98-2, *New Training Program Leading to Commissioned Examiner Status*, in 1998.¹ This program has been adjusted, amended, and updated over the years, even as late as this summer when additional modules relating to asset-liability management were added to the curriculum.

Safety and Soundness Track

Most new assistant examiners are assigned to the "Safety and Soundness" track in the training curriculum. This begins with a two-to-three week orientation program, which teaches ev-

basic terminology and information on ratings interpretations that they will use in the field. It also presents the first opportunity for assistant examiners to meet and interact with examiners from other Districts, building

Federal Reserve examiners complete a rigorous training program, consisting of classroom work, self-study, and on-the-job training, to ensure that they are capable of effectively supervising financial institutions.

erything from the basics of banking and bank examinations to administrative details necessary to perform the job correctly. A significant amount of self-study work, modules, and assessment tests are included in this part of the curriculum.

Normally, assistant examiners are sent into the field to work with experienced examiners for a short while before they attend their first major two-week class, Banking and Supervision Elements (BASE). This course provides assistant examiners with the

a resource network that will serve them well over their career with the Federal Reserve.

After completing BASE, assistant examiners complete the first major self-study program, which includes 84 hours of immersion in bank analysis ratios and tools, the Uniform Bank Performance Report, various regulations, and concepts in information technology and mortgage securities, as well as the first set of self-study modules on asset-liability management. Assistant examiners are then prepared to attend Operations and Analysis School (OpAS).

OpAS emphasizes concepts and interdependencies among common operational, analytical, and supervisory themes and techniques for banks, bank holding companies (BHCs),

¹ SR 98-2, *New Training Program Leading to Commissioned Examiner Status*, is available on the Board of Governors' web site at <www.federalreserve.gov/boarddocs/SRLETTERS/1998/SR9802.HTM>.

and foreign banking organizations (FBOs). OpAS also introduces assistant examiners to risk concepts, both in theory and in a risk-focused supervision environment. In the context of guided reviews, small group activities, and case studies, participants evaluate risks and assign ratings to simulated banks and BHCs using CAMELS and BOPEC frameworks. Participants also review the ROCA rating framework for FBOs.

After OpAS, assistant examiners complete the second major self-study program, which includes 77 hours of immersion in credit analysis ratios and tools, applications, consumer regulations, and additional, more advanced, asset-liability modules. After completing the second self-study program, the assistant examiners attend Credit Risk Analysis School, which emphasizes credit skills.

Either before or after completing the second self-study program, assistant examiners attend two so-called soft skill courses. The Report Writing course helps them during an examination and in making a written contribution to the examination report. They also attend Conducting Meetings with Management, a school designed to teach assistant examiners how to facilitate and properly prepare for internal meetings and for meetings with bank management. Assistant examiners also attend one other soft-skills class, Management Skills, later in the program. This class teaches assistant examiners critical thinking, teamwork, negotiation, and listening techniques.

The last three courses of the program are the most difficult and all-encompassing. They are Fundamentals of Interest Rate Risk Management

(FIRRM), Bank Management, and Examination Management. FIRRM teaches assistant examiners the advanced technical concepts and supervisory context of interest rate risk, liquidity, and funding. Bank Management is primarily a simulation course, where members of the class assume management positions in a simulated bank, managing the bank while faced

as safety and soundness assistant examiners. However, instead of taking classes related to bank operations, credit analysis, and interest rate risk, they take Consumer Compliance I and II, CRA Examination Techniques, and Fair Lending Examination Techniques. In addition, the self-study curriculum for Consumer Affairs assistant examiners focuses on

After completing BASE, some assistant examiners pursue one of two specialty tracks, Consumer Affairs or Information Technology.

with issues related to credit, liquidity and funding. The Examination Management class, or X-Man, is the capstone of the program. In X-Man, assistant examiners become familiar with the skills and responsibilities of an EIC in the risk-focused examination process; learn how to gather appropriate information to analyze examination issues; analyze and evaluate the risks of a financial institution, paying particular attention to the risk management processes; integrate elements of consumer affairs, fiduciary, and information technology examinations into the evaluation of an institution's risk profile; and develop investigative skills to aid in researching various aspects of the supervision environment.

Specialty Tracks

After completing BASE, some assistant examiners pursue one of two specialty tracks, Consumer Affairs or Information Technology. Assistant examiners specializing in Consumer Affairs take many of the same courses

consumer and compliance-related regulations and issues.

Assistant examiners specializing in Information Technology are subject to the requirements of SR 98-36, *Training Program for Information Technology Examiners*.² This program ensures that the assistant IT examiner receives specialty-specific knowledge and skills that are closely related to the competencies needed in similar IT positions within the banking and IT industries, in addition to the core supervision knowledge conveyed in the safety and soundness examiner curriculum. The System uses the Certified Information Systems Auditor (CISA) program, a globally ac-

² SR 98-36, *Training Program for Information Technology Examiners*, is available on the Board of Governors' web site at <www.federalreserve.gov/boarddocs/SRLETTERS/1998/sr9836.htm>.



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Editor.....Cynthia L. Course

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cepted standard of achievement among information system professionals that is sponsored by the Information Systems Audit and Control Association, for the assistant IT examiner's mid-level training requirements. In addition to taking many of the core safety and soundness courses and passing System proficiency examinations, an assistant IT examiner is required to achieve a CISA designation as a prerequisite to receiving an examiner commission.

Introducing:

The Commissioned Examiner

During the approximately three years assistant examiners are in training, they are required to take two proficiency examinations, one after BASE and one after X-Man. Successful completion of these examinations, coupled with demonstrated skills on-the-job, allows an assistant examiner to earn the coveted designation – Commissioned Examiner.

However, the examiners' learning journey is far from over. Federal Reserve examiners' learning continues throughout their careers, as they continue to hone their technical and supervisory

skills through on-the-job training and continuing professional development (CPD). The System's CPD Program, which is described in detail in SR 02-1, *Framework for Continuing Professional Development of the Federal Reserve Examination and Supervisory Staff*, allows commissioned examiners to continue to expand their knowledge in areas related to banking, finance, accounting, and regulatory changes, ensuring that they remain able to supervise effectively even the most complex financial institutions.³

So...the examiners are coming. You can be assured that they and their counterparts back at the Reserve Bank have the experience and training to effectively supervise financial institutions. Now, it is time to start gathering the information that they will review before the on-site examination begins. ■

³ SR 01-2, *Framework for Continuing Professional Development of the Federal Reserve Examination and Supervisory Staff*, is available on the Board of Governors' web site at www.federalreserve.gov/boarddocs/SRLETTERS/2001/sr0102.htm.

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