

Memo RM97-1 Off-site Exam Procedures, Vacations, and "S" Component

To: All State Chartered Banks
From: W. Newton Male, Bank Commissioner
Date: March 31, 1997

Re: **Off-Site Examination Procedures**
Addition of "S" Component in CAMELS
Bank Vacation Policies

OFF-SITE EXAMINATION PROCEDURES

As a part of our continuing effort to improve the quality of service provided to Kansas state chartered banks, the Office of the State Bank Commissioner has implemented off-site examination procedures for all safety and soundness examinations starting after March 17, 1997. These procedures should reduce the amount of time our examiners spend in your bank, thereby reducing the amount of disruption to your bank's daily business activities.

The implementation of these off-site procedures is by no means intended to replace personal contact with bankers, but rather to simply reduce the amount of on-site time by completing such tasks as data compilation and policy review off-site. The majority of the loan review function will continue to be completed at the bank and exit reviews will also be handled in much the same manner as before.

Your bank's preparation for an examination will be essentially the same, as no additional information is being requested. The format of the prenotification packet will, however, change to reflect what information is necessary for the off-site portion of the examination and what information will be needed for the on-site portion. Additionally, the prenotification will be sent out earlier to allow your bank a minimum of two weeks to complete the packet and to allow the examination team approximately one week to work on the information off-site. The examiner-in-charge will contact your bank before the prenotification is mailed and will also arrive at the bank approximately one week before the on-site portion of the examination for a brief visit and to obtain the requested off-site materials. As always, all information obtained through the course of an examination will be handled with the utmost care and confidentiality. The Office of the State Bank Commissioner is continually striving to improve the examination process, and we believe the changes outlined above will benefit bankers as well as examiners. Please feel free to contact our office if you have any questions or comments about these new examination procedures.

ADDITION OF "S" COMPONENT IN CAMELS

In conjunction with other state and federal regulators, the Office of the State Bank Commissioner has adopted the revised Uniform Financial Institutions Rating System or CAMELS. The addition of the "S" component relates to our examiner's review of a bank's "sensitivity to market risk" which for the majority of institutions will primarily reflect interest rate risk. The assessment of this component will generally involve the examiner's review of the bank's holdings and activities, the level of market risk exposure and the management processes in place to monitor and control it. These issues have always been considered in the examination process and CAMEL rating. The addition of the "S" component generally should not result in a change in the composite rating assigned to a particular bank. As with all rating components, this area will be fully discussed with management in the course of the examination.

BANK VACATION POLICIES

A policy requiring bank personnel to be away from their normal duties for a period of two consecutive weeks can be a valuable internal control procedure. Many times instances involving internal fraud or deception require the

perpetrator to be present in order to perpetuate the scheme. While differences in bank size and staffing are factors which may have some impact on the feasibility of a two consecutive week policy, our office encourages all banks to give appropriate consideration to this area when establishing vacation leave policies and/or practices involving rotation of job responsibilities.

The Office of the State Bank Commissioner is committed to providing quality and responsive service to our State chartered banks. Please call any of our staff if you have questions or comments on these or other issues.