BUREAU OF BANKING
Department of Professional and Financial Regulation
State of Maine
October 16, 1992

BULLETIN #53 COOPERATIVE EXAMINATION AGREEMENT

The Federal Deposit Insurance Corporation ("FDIC") and the Bureau of Banking entered into an agreement on August 21, 1992 designed to satisfy the annual, full-scope examination requirements of Section 111 of the Federal Deposit Insurance Corporation Improvement Act of 1991.

According to the terms of the cooperative examination agreement, the Bureau of Banking and the FDIC will begin conducting examinations in accordance with the following parameters:

Effective January 1, 1993, a divided examination program will be fully in place, and safety and soundness examinations conducted by the Bureau or the FDIC will be on an independent, annual basis, except as described below:

a. Regardless of the banks' CAMEL composite, all full-scope annual examinations of banks with assets of $1 billion or more as of the prior year-end will be conducted concurrently by the Bureau and the FDIC;
b. Banks accorded a CAMEL composite of 4 or 5 and banks accorded a composite rating of 3, which overall condition has not stabilized, will be subject to full-scope annual examinations on a concurrent basis by the Bureau and the FDIC. Either agency may conduct intervening full or limited scope examinations at its discretion. The initiating agency, however, will notify the other agency of its intent to conduct an intervening examination so that the other agency may participate and/or have input with regard to the scope/purpose of the intervening examination;
c. For banks accorded a CAMEL composite of 1 or 2, those banks rated 3, whose financial condition is considered improving, and which are less than $1 billion in total assets, examinations will be conducted independently on an alternate year basis by the Bureau and the FDIC. Those banks rated 1 or 2 with less than $100 million in assets will be examined every 18 months on an alternating basis.

While the definition of "annual" for the purposes of implementing FDICA's annual examination mandate has not been finalized, its appears that the next examination will commence on a date during the following year no later than 4 weeks after the anniversary of the close of the previous examination. For example, if the latest examination of an institution commenced July 13, 1992 and closed August 21, 1992, the next examination would commence no later than September 21, 1993.

While the Bureau has not entered into an agreement with the Federal Reserve Bank of Boston, it is anticipated that examinations of state member banks will be on a similar basis as above.

Obviously, this change in examination frequency increases the regulatory burden on the industry. The enabling congressional legislation, however, does not grant federal regulators much flexibility in determining examination frequency. The only significant flexibility granted is the provision permitting the FDIC to accept the examination reports of state banking departments on an alternating basis. In developing the examination parameters, the FDIC and the Bureau considered the size and condition of banks in determining whether or not to conduct examinations on an independent, alternating basis. For large banks ($1 billion or more) the resource constraints of both agencies indicated a need for annual, concurrent examinations. For those banks with less than favorable CAMEL ratings, we concluded that it was in the best interest of the agencies and the subject institutions to conduct annual examinations on a concurrent basis until the condition of the bank improves. The balance of the industry will have the benefit of alternating, independent examinations.

While an increased level of concurrent examinations is contemplated by this agreement and appears to be an additional increase in the examination burden over and above that contemplated by the annual examination mandate, the level of cooperation between state examiners and their federal counterparts has increased significantly. The most dramatic improvement regards the loan quality review. When the undersigned was first appointed in 1979, the state and FDIC conducted the loan quality review in a manner that resulted in nearly 100% duplication of effort. During the past 3-4 years, the cooperation has evolved such that there is very little duplication of effort in this process, which accounts for approximately 80% of examination hours. Therefore, the increased level of concurrent examinations should not increase the examination burden significantly.

Some institutions have noted differences in the conduct of state and federal examiners, which seem to inhibit cooperation. It should be noted that differences in work environment brought about by the on-going state budget problems may have contributed to a perception that state examiners lack dedication or organizational skills essential to the examination process. With the exception of state-mandated furlough/shutdown days and shortened work week, the Bureau's work rules for its bank examiners are long-standing, and have not changed in the 13 years that I have served as Superintendent. They are as follows:

Examiners are compensated for travel time on Mondays and Fridays, leaving for work from their homes at 8 a.m. and returning no later than 4 p.m. on Friday.

(Until 7/1/92, it was 5 p.m., when the state went to a mandated 39-hour work week). For all other days, examiners work 8:30 - 4:30 with an hour for lunch, a 7-hour day which contemplates 1 hour paid travel time. The FDIC has a similar policy regarding Monday and Friday travel, but the bi-weekly work period is structured so that examiners work 8 nine-hour days and 1 eight-hour day with no work every other Friday. The effects of the state-mandated furloughs/shutdowns (30 days for supervisory personnel and 17 days for non-supervisory personnel), combined with the 39 hour work week exacerbate the differences in work conduct between state and federal examiners.

Should you have any questions regarding the cooperative examination agreement or state work rules, please feel free to call me or Deputy Superintendent Don Groves.

/s/H. Donald DeMatteis
Superintendent