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Sample Statement of Work for Loan Portfolio/Asset Quality Reviews

STATEMENT OF WORK

I. BACKGROUND

Lending is the principle activity for commercial banks and typically is the largest asset and predominant source of revenue. As such, a bank's loan portfolio is one of the greatest sources of risk to the safety and soundness of a bank. Credit risk analysis is conducted by the Reserve Bank as part of a larger examination/supervision function. It emphasizes the importance of identifying and managing credit risk.

II. OBJECTIVE

The Reserve Bank is seeking contractors to perform asset quality reviews of commercial loan portfolios for one or more of the banks listed in Part V. Contractors will provide these services as part of a larger examination process.

III. SCOPE OF WORK

Contractors must have knowledge of the following:

- effective credit risk management practices and processes;
- applicable laws and regulations covering credit activities; and,
- credit analysis techniques.

IV. REQUIREMENTS

A contractor shall provide the following services.

1. Assess and provide written comments on the appropriateness of individual loan risk ratings to include analysis or assessment of:
 - borrowers and/or guarantors financial condition and ability to support debt;
 - terms of underwriting and loan structure vs. norms for the borrowers industry or, if appropriate the specialized lending type;
 - collateral valuations;
 - control of collateral, if applicable;
 - compliance with bank policy;
 - quality of bank credit files, to include support for assigned risk rating;
 - strategy for borrower relationship, especially if a weaker rated credit;
 - work-out strategy, if appropriate; and,
 - ALLL allocation.

The Reserve Bank will provide access to appropriate information and databases necessary for the successful completion of contract requirements. If necessary, the Reserve Bank also will provide equipment. A contractor is responsible for any equipment furnished by the Reserve Bank, and in the event any equipment is lost, damaged, stolen or destroyed, the contractor is responsible for the cost of replacement.

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V. PLACE & PERIOD OF PERFORMANCE/NUMBER OF CONTRACTORS

A contractor shall provide these services in one or more of the following locations on the date(s) detailed below. The Reserve Bank estimates that the task(s) will end on the date(s) detailed below.

<u>Bank/Location</u>	<u>Start Date/Estimated End Date</u>	<u>Maximum Required Hours/Contractor</u>
Horizon State Bank Sunset, Arizona	Aug. 6, 2001 – August 17, 2001	65
First Bank of Bucko Bucko, Nevada	Sept. 10, 2001 – Sept. 14, 2001	35

A contractor may perform work only while a Reserve Bank examiner is at the bank.

Normal daily work hours will be: _____

VI. DELIVERABLES/REPORTS

A contractor shall submit written comments, reports, and papers as prescribed by the examiner-in-charge, including work papers related to the examination services prepared by the contractor. All written materials shall be provided to the Examiner-in-Charge.

With regard to content, all written communications produced by the contractor must:

- demonstrate logical organization of ideas;
- demonstrate consistency and cohesiveness;
- prove to be factual and logical;
- present thoughts and conclusions clearly;
- make major points succinctly and easily distinguishable from minor issues;
- leave a clear audit trail to final conclusions; and,
- provide documentation to support conclusions in accordance with Reserve Bank examination standards and procedures.

A contractor shall not make any final decision for the Reserve Bank about a bank examination matter, but shall provide full examination technical support.