

## EXAMINER'S ORIENTATION

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### *Type of Participant Targeted*

Orientation targets assistant examiners who are new to the Federal Reserve System. The online design addresses a wide range of participant competencies and Reserve Bank training resources. *All assistant examiners, regardless of specialty, must complete this course before becoming commissioned.*

### *Prerequisites*

There are no prerequisites. Generally, the program is intended to take advantage of the time available to a new hire prior to participating on an examination or inspection.

### *Course Overview*

Orientation is an online self-paced course that has three primary goals. The first is to make new examiners feel welcome and involved with the Federal Reserve System's mission to effectively supervise financial institutions. The second is to provide them with a base understanding of the business of Bank Supervision and the Federal Reserve System. The third is to prepare assistant examiners for field assignments in their designated specialty area. Lessons provide insight into the Federal Reserve's core values and philosophy of supervision. The course is based on the assumptions that new hires come to the System with a wide range of experience and education and that Reserve Banks have different organizational structures and supervisory concerns. The design allows each participant to learn at his/her own pace and to complete the lessons that are most relevant to future assignments. Additional time is needed for the optional lessons, none of which are required as pre-work for Banking and Supervision Elements (BASE).

### *Pre-Course* (length determined by each Reserve Bank)

Each Reserve Bank provides introduction to the division, staff members, reporting relationships, career development, communications, training, management philosophy, organizational values, performance expectations, administrative issues, automation training, policies, and procedures.

### **Core**

The Core module, required for all assistant examiners, provides an overview of bank supervision and the examination disciplines.

### **Specialty Modules**

Specialty modules are designed to prepare new hires to understand the purpose of, and actively participate on, an examination or inspection in their area of specialization. These specialties modules consist of safety & soundness, consumer affairs, and information technology.

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Since most of the course is self-paced and each lesson is a stand-alone unit, Reserve Banks have the flexibility necessary to meet the individual learning needs of each new hire and the scheduling demands of the examination function.

### *Course Objectives*

After completing this Orientation course, the participant, at a minimum, will be able to complete the following objectives.

- Describe the core values of the Federal Reserve System in its role as a significant financial institution supervisor.
- Describe the participants' role as Federal Reserve System examiners and identify their reporting relationships, performance expectations, internal communications, commissioning requirements, and career development opportunities.
- Describe U.S. Bank regulatory structure and discuss the Federal Reserve's role within it.
- Identify relevant banking laws and regulations.
- Describe in general terms, the objectives and fundamental purpose of each banking supervision and regulation function, including the concept of integrated supervision and the rating systems used for examinations and inspections.
- Describe the components of a bank's operations and explain how the overall examination process and each specialty examination function relate to the components.
- Identify and describe the various components of sound internal controls.
- Describe financial institution reporting requirements, complete bank accounting transactions, and verify the accuracy of regulatory reports.
- Identify the key elements of one's specialty examination function and the examination approach used to identify associated risks.
- Locate reference materials used to supervise banks and bank holding companies (BHCs).
- Develop appropriate questions to use when interviewing bankers using examination questionnaires.

### *Post-Course Intervention*

After completing Orientation, participants will retain more skills and knowledge if they are given on-the-job assignments that reinforce the concepts covered in the course materials. Such on-the-job assignments include the following examples.

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### Core Module

- Assist in preparing for an inspection or examination including information gathering and risk assessment preparation.

### Safety and Soundness Module

- Assist on an examination or inspection and perform various duties including:
  - Preparation of report financial pages
  - Review of internal controls and procedures
  - Review of internal and external audit
  - Review of the investment portfolio of a state member bank
  - Verification of the accuracy of a Report of Condition or FR-Y report
  - Review of compliance with BSA

### Information Technology Module

- Assist on an information systems examination and perform various duties including:
  - Preparation of examination report pages
  - Review of internal and external audit
  - Review of systems development and programming controls
  - Review of physical and data security controls
  - Review of data operations controls

### Consumer Affairs Module

- Assist on a Consumer Affairs examination and perform various duties including:
  - Review operations
  - Review Regulation Z compliance
  - Review for compliance with regulations related to lending, other than Regulation Z
  - Review Equal Credit Opportunity Act (ECOA) compliance
  - Review Fair Housing Act (FHA) compliance
  - Review Community Reinvestment Act (CRA) compliance
  - Review Home Mortgage Disclosure Act (HMDA) compliance

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### *Overview of the Orientation Curriculum*

<u>Subject</u>	<u>Approximate Times</u>
<b><u>Reserve Bank Introduction (Pre-Course)</u></b>	
Welcome and Introductions	
Values, Mission, Strategic Plan and Objectives	2.00
Logistics	1.00
Organization and Reporting Relationships	.50
Performance expectations	.50
Security	1.00
Policies and procedures	.50
Your Personal Computer and Automation	2.00
Communications	4.00
Travel	1.00
Training and Education	1.00
Career development	.50
<b><u>Core Lessons</u></b>	
Core Overview Examiner Training	.50
Business of Banking	1.00
The Federal Reserve System	.50
Supervisory Overview	3.00
Supervisors & Regulators	2.00
Financial Institution Reporting	1.00
Bank Accounting	3.00
Internal Controls	5.00
Payments System Risk	2.00
Interviewing Strategies	.75
<b><u>Specialty Lessons</u></b>	
<b>Safety and Soundness Specialty Required Lessons</b>	
Safety and Soundness Examination Overview	1.00
Financial Report Verification	3.00
Bank Secrecy Act	5.00
Bank Rating System	3.00
Bank Secrecy Act	

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Bank Holding Company Rating System	3.00
First Assignment	3.00

### **Safety & Soundness Specialty Optional Lessons**

Bank Accounting Applications	3.00
BHC Accounting	5.00
FBO Examinations	6.00
FBO Exercise	6.00
Fiduciary Supervision	16.00

### **Consumer Affairs Specialty Required Lessons**

Consumer Affairs Examination Overview	2.0
Operations	5.0
Lending Overview	2.0
Truth in Lending	1.0
Equal Credit Opportunity	3.0
HMDA	1.0
Fair Housing Act	1.0
Community Reinvestment Act	2.0

### **Information Technology Specialty Required Lessons**

IT Examination Overview	3.00
Management	4.00
Internal/External Audit	3.00
Support & Delivery	5.00
Development & Acquisition	5.00

### ***Learning Objectives***

(Lessons to be completed in Core)

After completing each section, the participant, at a minimum, will be able to demonstrate the following skills.

#### Examiner Training Program

- Ensure examiners receive knowledge to keep pace with recent changes in the financial industry;
- Encourage the use of skills needed to successfully employ a risk-focused approach to examinations;
- Present integrated supervision concepts;

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- Provide flexibility to address examiners' varying education levels and experiences at time of hire;
- Promote flexibility to accommodate examiners' different career paths;
- Build flexibility to address the System's diverse supervisory responsibilities;
- Integrate training with on-the-job responsibilities; and
- Clarify responsibilities of assistant examiners and Reserve Bank management for achieving objectives.

### Business of Banking

- Define a bank Holding company according to the Bank Holding Company Act;
- Identify the major function of a bank and their associated risks;
- Explain the relationships of the deposits, payments, and credit functions, and the additional services banks provide;
- Explain the process of check processing; and
- Identify any situations where the formation of a bank holding company benefits a banking organization.

### Federal Reserve System

- Describe the historical events and legislation leading to the creation of the Federal Reserve System;
- Identify the structure, functions and objectives of the Federal Reserve System; and
- Identify the major laws and regulations relating to banking supervision and regulation.

### Supervisory Overview

- Identify benefits of risk-based and integrated supervision;
- Identify the benefits of risk-based and integrated supervision;
- Given various banking scenarios, select the activity the Fed would undertake to fulfill its supervisory responsibilities; and
- Given an examination or inspection type, identify the correct rating system.

### **Supervisors & Regulators**

- Identify the financial institution supervisory agencies;
- Identify the financial institution(s) they supervise; and
- Identify the Fed's relationship with the other supervisory agencies.

### Financial Institution Reporting

- Understand how examiners use financial institution reports;
- Identify appropriate reports for various institutions, including the purpose and general filing requirements for:

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- Call Reports;
- FRS Y-series reports;
- The Annual Report of Trust Assets; and
- Community Reinvestment Act Reports
- Home Mortgage Disclosure Act (HMDA) Reports.
- Identify the purpose and content of:
  - the Uniform Bank Performance Report (UBPR) and
  - the Uniform Bank Holding Company Performance Report (UBHCPR).
- Locate information contained in various regulatory reports.

### Bank Accounting

- Define the purpose of accounting, the assumptions and basic accounting principles;
- Describe the accounting cycle;
- Record journal entries to demonstrate the differences between cash and accrual accounting;
- Identify sections of the general ledger and complete an income statement according to generally accepted accounting principles; and
- Prepare journal entries for securities and allowance for loan losses transactions according to proper accounting guidelines.

### Internal Controls

- Identify internal control activities as preventative or detective;
- Recognize elements of the COSO internal control framework;
- Associate risk with banking activities;
- Identify the responsibilities of management, the board of directors, internal audit, and external audit; and
- Describe elements of effective internal and external audit functions.

### Payments System Risk

- Identify different types of payments systems;
- Describe the different types of risks associated with payments systems;
- Define a daylight overdraft; and
- Describe payments system risk examination objectives.

### Interviewing Strategies

- Recognize questions that elicit a complete, unguided response.
- Recognize the three integral parts of an interview; and
- Identify the characteristics of an effective fact-finding interview.

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(Specialty Modules)

### **Safety and Soundness Specialty Required Lessons**

#### Safety and Soundness Examination Overview

- Explain why we examine banks and inspect BHCs’;
- Define risks faced by financial institutions;
- Recognize key elements of an effective risk management system;
- Identify the specific duties and responsibilities of examiners participating on bank examinations and bank holding company inspections; and
- Locate specific material in examination and inspection manuals.

#### Financial Report Verification

- Use the FFIEC Instructions for the Consolidate Report of Income and Condition (call report) to determine the placement of items on the call report;
- Prepare a balance sheet pursuant to the regulatory reporting guidelines; and
- Complete a Y-report pursuant to regulatory reporting guidelines.

#### Bank Secrecy Act (BSA)

- Describe the provisions of the Bank Secrecy Act; and
- Identify the presence (or lack thereof) of required elements in a bank’s BSA compliance program.

#### Bank Rating System

- Describe the purpose of the CAMELS rating system and how it is used to evaluate the financial condition of a bank;
- Describe the purpose of the risk management rating system and how it is used to evaluate the quality of risk management practices and internal controls;
- Define each component of the CAMELS and risk management rating systems;
- Describe the meaning of each numerical rating; and
- Identify key pages of the UBPR that are used in assigning the CAMELS rating.

#### BHC Rating System

- Identify the components of the BHC rating system, including:
  - BOPEC
  - Financial Composite
  - Managerial Composite
  - Risk Management
- Identify which items cannot be disclosed to BHA management; and
- Given a specific BHC rating, identify which factors contributed to that rating.

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### First Assignment

- Identify the profile of the institutions in your district;
- Identify the supervisory approach used by your Reserve Bank;
- Determine the type of institution you will be likely to visit on your first field assignment as an assistant examiner;
- Identify the first assignment or potential pre-exam or pre-inspection assignments you may be asked to complete;
- Recognize the various tools and resources that you will use to complete field assignments; and
- Identify the components of your final product required to complete an exam or inspection by your individual Reserve Bank.

### Safety & Soundness Specialty Optional Lessons

#### Bank Accounting Application

- Complete journal entries in appropriate accounting format;
- Complete a balance sheet and income statement according to regulatory accounting principles; and
- Identify improper accounting procedures and associated risks.

#### Bank Holding Company Accounting

- Record general journal entries for selected parent company financial statement accounts;
- Identify different methods of accounting for the investment in subsidiaries;
- Calculate investment in subsidiaries, equity in undistributed earnings, and dividend income;
- Identify common accounts found in BHC financial statements and made accounting entries;
- Identify similarities and differences between parent-company-only and consolidated financial statements;
- Identify key procedures employed in the process of consolidating the financial statements of a parent BHC and its subsidiary; and
- Complete a BHC accounting exercise.

#### FBO Examination Overview

- Identify characteristics of different types of FBO offices in the U.S.;
- Discuss the objectives of the Foreign Bank Supervision Act of 1991;
- Describe key components of the enhanced supervisory framework;
- Define the ROCA acronym; and

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- Identify factors considered when assigning ROCA composite and component ratings.

### FBO Exercise

- Identify major issues reviewed when assigning an FBO's Strength of Support Assessment Rating;
- Identify risks present in a U.S. Office of an FBO; and
- Explain the concept "Due from/Due to" accounts.

### Fiduciary Supervision

- Explain the roles of the Federal Reserve and the fiduciary examiner in examining fiduciary activities;
- Familiarize the examiner with the examination guidelines, workpapers, automated tools, and other reference materials for fiduciary examinations;
- Describe the risk-focused supervision process and how it applies to the examination of fiduciary activities; and
- Discuss the fiduciary rating methodology.

## **Consumer Affairs Specialty Required Lessons**

### Consumer Affairs Examination Overview

- Identify reference materials used as CA examination resources, including those used to determine examination frequency, scope, and rating methodology.
- Recognize the various steps of the examination process.
- Understand the concept of "risk-focused" compliance supervision.
- Apply examination frequency mandates and rating methodology in accordance with Board policy.
- Differentiate between compliance examination and CRA examinations.

### Operations

- Recognize the types of accounts defined in and the reserves required by Regulation D, and understand how to calculate simple interest and early withdrawal penalties;
- Describe the rules in Regulation Q that prohibit the payment of interest on certain kinds of deposit accounts and that define what constitutes "interest" for those purposes;
- Recognize the major concepts of Regulation E;
- Apply the rules in Regulation CC pertaining to funds availability to the self-test examples;
- Perform annual percentage yield calculations for deposit transactions in accordance with Regulation DD and
- Recognize the major concepts of the Right to Financial Privacy Act (RTFPA).

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### Lending Overview

- Identify consumer laws and regulations related to the lending process;
- Explain the basic purposes of the lending-related laws and regulations; and
- Identify and define terminology relating to consumer lending laws and regulations.

### Truth in Lending

- Demonstrate familiarity with the basic purpose of Regulation Z as it relates to open-end and closed-end loans;
- Recognize the unique format of Truth in Lending disclosures;
- Calculate annual percentage rates (APRs) using financial tools available through your Reserve Bank; and
- Demonstrate familiarity with the Truth in Lending/Regulation Z examination objectives as they relate to open-end and closed-end loans.

### Equal Credit Opportunity

- Recognize the purpose of Regulation B;
- Identify and define terminology relating to Regulation B;
- Apply the fair lending and other provisions of Regulation B to identify illegal practices and
- Identify appropriate Regulation B Examination Procedures.

### Home Mortgage Disclosure Act (HMDA)

- Articulate the purpose of the Home Mortgage Disclosure Act (HMDA) and distinguish between the types of institutions subject to HMDA
- Recognize the key fields of information contained on a HMDA Loan Application Register.
- Demonstrate the ability to verify the accuracy of data on a HMDA LAR; and
- Describe the notice requirements of HMDA reporters, as well as the requirements for providing HMDA data upon request.

### Fair Housing

- Explain the purpose behind the FHA;
- Identify potentially discriminatory practices in the housing-related lending process; and
- Introduce examination considerations under the FHA.

### Community Reinvestment Act (CRA)

- Define the major purpose of the regulation;
- Identify those types of institutions covered by CRA and those not covered;
- Determine which of the four examination criteria are used for specific institutions;
- Recognize the purpose of the Performance Evaluation; and

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- Identify the contents of the public file.

### **Information Technology Specialty Required Lessons**

#### IT Examination Overview

- Describe the major uses of IT in the Financial industry;
- Identify the proper resources used by examiners when conducting an IT examination;
- Identify the four major areas evaluated in an IT examination;
- Identify the risk elements that are evaluated for each major area evaluated in an IT examination;
- Identify the four major criteria used to evaluate the major areas in an IT examination;
- Identify the IT Examination Rating Methodology;
- Identify the major duties of an Assistant Examiner while conducting an IT examination.

#### IT Management

- Describe Management Control elements;
- Identify the organizational components of IT Management examinations;
- Identify the planning components of IT management examinations;
- Identify the controls components of IT Management examinations;
- Identify the financial analysis components of IT Management examinations;
- Identify the insurance components of IT Management examinations; and
- Identify the information system components of IT Management examinations.

#### IT Audit – Internal and External Audit

- Identify the items reviewed by Information Systems examiners when they assess internal and external audit; and
- Given an FFIEC Examination Workprogram and information from a fictitious bank, consider the adequacy of the bank's internal and external audit function.

#### IT Support and Delivery

- Identify the items reviewed by Information Systems Examiners when they assess Support and Delivery.

#### IT Development and Acquisition

- Identify the items reviewed by Information Technology Examiners when they assess systems development and acquisition.

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### *Class Size*

Because of the online design of the course, it may be delivered either on an individualized basis or to a group.

### *Instructors*

The course is led by a team made up of a course administrator (CA), who coordinates the administration and delivery of the modules, and several subject matter experts (SMEs), who serve as resources for the participants. The first week will require one CA and one SME for every eight participants. For the Core module, the SME needs to be familiar with banking supervision functions, bank accounting principles, and the design and delivery of the course.

The specialty module requires a CA (preferably the same individual as the first week) and at least one SME for each area of specialization. The level of expertise required for the SME is identified for each module in the Administrator's Guide.

The CA will be responsible for the following:

- Administering the course facilitating delivery, collecting and distributing materials, tracking participant's progress, , and coordinating assignments among SMEs;
- Discussing organizational values, establishing performance expectations, and explaining policies and procedures;
- Preparing and delivering Reserve-Bank-specific information;
- Obtaining access to automated products and delivering training for software and relevant applications; and
- Answering questions, directing participants to reference materials, demonstrating automated tools, explaining examination concepts, and providing feedback.