

Qualified Thrift Lender Examination Procedures

September 7, 2017

Examination Scope and Assessment

The purpose of these procedures is to help examiners determine whether a state savings bank or insured cooperative bank (referred to as an “electing bank”) meets the qualified thrift lender (QTL) test under section 10(m) of the Home Owners’ Loan Act (HOLA)¹ and has a satisfactory process to ensure ongoing compliance with the QTL test. These examination procedures are applicable only to electing banks in which the Federal Reserve has responsibility for assessing QTL compliance.

The scope of a QTL assessment should be commensurate with the electing bank’s risk of non-compliance with the QTL test. For example, if the electing bank is in danger of not meeting the QTL test, examiners should consider offsite monitoring by requesting reports from the institution in addition to the procedures discussed below. Examiners may consider a risk-focused review for an electing bank that has a history of compliance, qualified thrift investments (QTIs) that far exceed the minimum requirements, and satisfactory risk management practices.

Examination Procedures

1. Review prior examination reports and/or examination work papers to identify any QTL related issues.
2. Verify that the electing bank is self-certifying its QTL status on the Call Report by completing:
 - RC-M line 15a, which asks for the electing bank to indicate whether it uses (1) the Home Owners' Loan Act (HOLA) QTL test or (2) the Internal Revenue Service Domestic Building and Loan Association (IRS DBLA) test to determine its QTL compliance.
 - RC-M line 15b, which asks the electing bank to indicate with a “yes” or “no” whether it has been in compliance with the HOLA test as of each month end during the quarter or qualified as a domestic building and loan association under the Internal Revenue Code for its most recent taxable year, as applicable.
3. Obtain the electing bank’s QTL work papers to determine the following:
 - The percentage of the electing bank’s portfolio assets that are QTIs.²
 - Whether the electing bank maintained QTIs of at least 65 percent of portfolio assets for nine of the preceding twelve months prior to the examination date. Examiners may consider sampling for a risk-based review.

¹ 12 U.S.C. 1467a(m)(1).

² 12 U.S.C. 1467a(m)(4)(A).

- Verify that assets are categorized based on the applicable statutory definitions.³
 - Verify that the actual thrift investment percentage is accurate and consistent with HOLA.⁴
 - Determine the quality of the electing bank's work papers and whether they provide a reasonable audit trail.
4. Assess the electing bank's risk management practices and control systems.
- Determine whether QTL policies are satisfactory and periodically reviewed by the appropriate oversight committee.
 - Determine if risk management practices are sufficient to ensure ongoing compliance with QTL requirements, including whether the electing bank's staff and management have adequate training and knowledge of QTL compliance and procedures.
 - Determine if risk monitoring reports are timely, accurate, and provided periodically to senior management or the appropriate oversight committee.
 - Determine whether there are periodic audit and compliance reviews of proper scope and depth.
 - Determine if senior management considers QTL requirements for strategic planning, including acquisitions, new activities, or changes to the electing bank's balance sheet structure.
5. For an electing bank that fails to meet the QTL requirements, examiners should notify Board Legal and the SLHC Section of the Division of Supervision and Regulation. After consultation with Board staff, the Reserve Bank must notify the electing bank in writing of the QTL failure and the resulting consequence for the electing bank and its parent company.
6. Update the Supervisory Plan and Risk Assessment for the next exam cycle based on current exam findings.
- For an electing bank that is consistently in danger of failing the QTL test, examiners should consider whether additional quarterly monitoring is warranted.
 - Conversely, an electing bank that consistently exceeds the QTL requirement and has sufficient control systems may warrant a risk-focused review.

³ 12 U.S.C. 1467a(m)(4)(c)(ii), (iii). *See also* SR letter 17-9, "Supervisory Guidance for Examining Compliance with the Qualified Thrift Lender Test."

⁴ 12 U.S.C. 1467a(m)(4)(A)