

## Bank groups launch better way to beef about exams

Turning exam angst into actionable data takes cooperation from banker associations and their members

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By Steve Cocheo, executive editor

Maybe the cliché says “The squeaky wheel gets the grease.” But in Washington regulatory headquarters, the squeaky wheel gets dismissed.

Why? Regulators react to hard data, statistics, trends—not to anecdotes about a single banker who received a visit from the “examiner from hell” or, at least, had a disagreement about an important point on the bank’s ALLL. Thousands of exams take place annually, so one or two stories from a banking association representative don’t register much, according to Wayne Abernathy, ABA’s executive vice-president, financial institutions policy and regulatory affairs.

And when the national or state trade group representative can only quote bankers anonymously, due to their fear of retaliation, the point weakens even further, according to Roger Beverage, president and CEO at the Oklahoma Bankers Association.

“That’s why Sheila Bair hasn’t heard anything specific,” says Beverage, noting how the departing FDIC chairman claimed she wasn’t hearing details about regulatory frustrations. “We want to be able to give them some data they will not be able to avoid.”

New system provides help without exposure

Coming up with something better than exam war stories takes a system, and it is here. State banker associations and ABA have come up with an online mechanism that will generate such data, while protecting bankers from regulatory revenge. The “Regulatory Feedback Initiative,” launched June 1, uses a special website to gather banker input about recent exams through online surveys, at [www.allbankers.org](http://www.allbankers.org)

The initiative, a year in the making, began when Utah Bankers Association President and CEO Howard Headlee called Abernathy to broach the idea. “It’s a very imprecise process by which we learn about bankers’ problems with the regulatory process,” Headlee explains. He suggested to Abernathy that capturing observations and impressions in an organized fashion would add that precision and statistical strength.

A key point of the system is confidentiality. It uses a third-party vendor’s system that captures no identifying data. “There’s no way to connect a completed survey back to an individual banks,” says Headlee. Links to participate were sent out from state associations to member CEOs. They can also be obtained through [www.allbankers.org/request.php](http://www.allbankers.org/request.php) Notably, the system’s organizers have vetted its approach to ensure that it does not violate any of the confidentiality requirements applicable to exams. Abernathy points out that the safety and soundness version of the survey form asks if the bank’s CAMELS rating rose or fell after the most recent exam—but does not ask for the actual rating.

While many survey questions deal in data that can be tabulated, says Headlee, “there are plenty of verbatims in the survey” as well. This will help bankers provide both quantitative and qualitative input. A sample of the latter: “What did you wish you knew before your bank was examined?”

Triple payoff for banks

Participating in the Regulatory Feedback Initiative will take banker time and effort. But association executives predict payoffs for the industry and for each individual institution.

• Regulatory and legislative lobbying will gain traction. “We won’t be dealing in anecdotes anymore,” says ABA’s Abernathy. “We’ll no longer be dealing in one-offs.” Being able to slice and dice data comparing regulatory agencies to each other—even agency region to agency region—will be more effective. And as multiple years of data accumulate in the database, trend analysis will be possible, he adds. This will send more powerful messages to regulatory headquarters and to Capitol Hill, Abernathy says.

“This system will give us a heat map of what’s going on out there,” says OBA’s Beverage.

• Banks can better prepare for exams. To date, bankers themselves have had little to go on about the banking side of exams except anecdotes, Beverage points out. Most of this gets traded over a drink at an association function.

“That’s pretty catch as catch can,” says Beverage, who was a top state banking regulator in Nebraska during the ag crisis of the 1980s before getting into association work.

However, as the database fills up, he adds, bankers will be able to request custom reports through their state

associations, helping them obtain detailed expectations about upcoming exams across a spectrum of institutions. Abernathy says it will take about six months worth of data to populate the database sufficiently to permit trend analysis.

“It’s not like having the answers to the test,” says Beverage, “but it’s like having a good study guide. If you don’t know what to expect, there’s not a whole lot you can do to get ready.”

• Associations can target key issues. While all banker problems cause concern, association response can be tailored to the size of the banking population affected by a given examination issue—whether nationally, regionally, or at a finer level.

To bring this about, “we’ll need a lot of banker buy-in,” says Abernathy. “We’re hopeful we’ll get it, but we won’t know until we see it.” [This article was posted on June 30, 2011, on the website of ABA Banking Journal, [www.ababj.com](http://www.ababj.com), and is copyright 2011 by the American Bankers Association.]