



FEDERAL RESERVE BANK of KANSAS CITY

May 3, 2016

Supervision and Regulation (SR) Letter 16-8: Off-site Review of Loan Files

Attention: Chief Executive Officer of Each Tenth District State Member Bank

In Brief: An announcement was issued regarding the Federal Reserve's off-site review of loan files during full-scope or target examinations of state member banks (SMBs) with less than \$50 billion in total assets. The Federal Reserve has the ability to conduct off-site reviews of loan files provided the SMB is amenable to such an arrangement, loan file information is legible and comprehensive, and the method of data transfer complies with existing Federal Reserve information security requirements.

Highlights: The Federal Reserve has historically reviewed certain components of a bank's financial performance and its policies, procedures, and other internal bank reports off-site during the examination process. Technology advancements now allow for more secure and efficient data transmission, making off-site review of loan files a viable alternative to an on-site review. While on-site examination work will continue to play an integral role in the supervisory process, appropriate use of off-site review technology provides tangible benefits without compromising the effectiveness of the examination.

The process for determining if a SMB will participate in the off-site review program will include an assessment of the SMB's interest in participating in the program, the quality and navigability of loan images, and the method of secure data transfer. This assessment will take place prior to all examinations, providing ample time to appropriately plan for and test off-site loan review capabilities should the SMB elect to participate in the program. The SMB should be prepared to participate in a pre-examination testing process to ensure loan images are legible, appropriately indexed/organized, and contain all necessary information for an examiner to conduct a full credit analysis. Finally, data transmission to the Federal Reserve must use a secure method such as cloud-based collaboration products, secure email services, encrypted removable media, virtual private networks, or remote desktop control services. Through this assessment process, the Federal Reserve may determine not to conduct an off-site loan review if it would impede the examiners' ability to conduct a thorough and efficient analysis, or if data security concerns exist.

On-site supervisory work remains a critical component of the examination process, and SMB participation in off-site loan review is optional. Certain examination work requiring physical observation or monitoring of a bank's systems and controls, in addition to in-person interactions with bank management, will continue to occur on-site. Throughout the examination process, examiners will maintain effective ongoing communication with bank management regarding the status of all off-site examination work. Additionally, communication of final supervisory findings and conclusions, including off-site loan review conclusions, will continue to take place at in-person examination exit meetings.

Contact: Please direct any questions concerning the new guidance to your Federal Reserve Bank of Kansas City central point of contact at (800) 333-1010.

Internet Link: A copy of the Federal Reserve Supervision and Regulation Letter SR 16-8 is available on the Board's public web site at: <http://www.federalreserve.gov/bankinforeg/srletters/sr1608.htm>