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To Bank Presidents/CEOs:

The attached interagency guidance was developed for state and federal examiners. As the country starts to reopen after the pandemic lockdowns, examiners will be contacting banks when it is time for the next examination. While the interagency guidance discusses what examiners will be doing, I wanted to provide some additional detail on our expectations for banks and interactions with examiners.

The Iowa Division of Banking will continue to conduct offsite examinations for the foreseeable future. And, even when we do resume some onsite examination work, we will work with you to make sure we have a plan that fits within your bank's COVID procedures as well. In the meantime, we will work with banks that do not have digital loan files to determine the best way for us to access loan file information. In these cases, and a few others where key information is more difficult to access, the examinations may take longer than usual. With your help, we will do our best to minimize any extra time.

Upfront risk scoping will help our examiners determine how to use everyone's time most effectively and efficiently so we can make the process go as smoothly as possible. If the bank's loan files are digital, extra steps may be necessary to provide examiners with secure access. The process for granting that access needs to be discussed between you and our examiners. Our examination teams will review the same type of information as always and will need to schedule telephone or video calls with bank personnel. These calls will provide the examiners with valuable information and the one-on-one conversations remain a vital part of every examination.

Risk Assessment is Key for Banks

Our examiners determine whether the risks a bank assumes are warranted by assessing whether the risks are effectively managed and consistent with safe and sound banking practices. Generally, a risk is effectively managed when it is identified, measured, monitored, controlled, and reported. Senior management should report to the board on the overall risk profile, including aggregate and emerging risks.

Every bank should tailor its risk management system to its needs and circumstances. The sophistication of the risk management system should be proportionate to the risks present and the size and complexity of the bank. For small community banks engaged in limited or traditional activities, risk management systems may be less formal in scope and structure.

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When examiners assess risk management systems, they consider the bank's policies, processes, personnel, and control systems. Examiners will place additional emphasis on how well the bank has identified, documented, and managed risks arising from the pandemic. Banks should assess their risks and provide examiners with information on how any challenges related to the pandemic are being addressed. This assessment of risk should include the full scope of how the pandemic affected your bank. Changes in strategy, technology systems, cyber protections, personnel, operations, and your outlook should be considered. The bank's capital levels must also be considered given actual or potential losses due to the pandemic. If capital shortfalls are possible, the bank should have a capital plan to establish how the bank's capital levels will be augmented.

When assessing risks, the bank should also consider how it took advantage of the government programs and regulatory relief issuances, including the impact of these programs on operations, customers, and the bank's community(ies). The Paycheck Protection Program is a prime example of a program that the banking industry aggressively implemented. Another example might be if your bank took advantage of the 120-day delay in securing real estate appraisals or evaluations. If so, you should be prepared to explain how that relief was used and if it presents any follow-up concerns such as dealing with a backlog of appraisals. You should also assess how the local recovery is progressing and the additional challenges that the situation presents. Addressing any credit concentrations, whether they are long-standing or newly emerging from the pandemic, is also important. Examiners will also review management's plans for those credit concentrations. Documentation is very important in normal times and even more important during times like these.

Closing Thoughts

At the Iowa Division of Banking, we sincerely recognize the significant impact the COVID-19 Pandemic has had on your customers, communities, employees, and your bank directly. We understand that all of these parties, including family members, are requesting your time and attention. At the same time, you are fully engaged in bank operations, employees returning to work, and customers' ongoing needs. Working together, we hope that the examination process can add value to your own risk assessment and give you third party insights from examiners who view many banks during an examination year.

Please contact me at 515-281-4014 if you have any question about the examination process going forward.

Sincerely,



Jeff Plagge

Iowa Superintendent of Banking

Attachment