

## How to Use This Manual

Bank Policies: A Working Guide to Regulatory Compliance has been structured to meet the needs of different users — from policy developers to those supervising or evaluating the work of others. Policy developers will find that this book will help them to organize their approach to bank policy and to ensure that specific areas are covered and analyzed during the policy development process. For those managing the development process, this book will help in reviewing the effectiveness and adequacy of your bank policies — whether you are testing to see if a particular area is covered by a policy, determining whether a policy contains the information required, assessing the scope of a policy, or ensuring that a policy meets the requirements of regulatory agency examiners.

Changes in the financial services industry and, therefore, the regulatory assessment of management supervision have become critical issues for every bank. Examiners are reviewing bank policies more closely than ever before; in turn, bank directors are asking the hard question, “What is our bank’s policy regarding this operation, product, or service?” Bank Policies: A Working Guide to Regulatory Compliance is a resource designed to help bank management in:

- Assessing policy needs
- Evaluating whether current policies meet compliance standards
- Planning and developing new policies as required

Recent developments in the banking industry have made the need for clear, well-planned bank policies more urgent than ever. Bank failures and problem banks are still newsworthy items subject to frequent media coverage. These have given rise to questions from directors and shareholders concerned about the security of their banks. To help you to deal with the challenge of developing and maintaining your policies, we have concentrated on making this a practical, “how-to” guide that will lead you through every aspect of the policy review and development process.

From the decision to develop a policy, to its periodic on-going review, policies communicate the governance mandates and parameters of the organization. Too often policies may be viewed as a luxury, requiring time and extra effort to outline, draft, discuss, and finalize. When a policy is reviewed as a focused statement of the preferred course of action or governance, it is an invaluable resource. From communicating to senior staff or training new employees, policy statements provide a critical communications tool.

Policy statements should not be confused with other types of documents. For example, policies are generally not one of the following:

- Mission statements. A mission statement is too general and global.
- Memos. Memos are often a general communiqué and provide basic concepts or guidance
- Manuals. Ideally, a policy is not a manual as manuals are often lengthy, cumbersome, and difficult to remember. Policies that extend more than 25 pages are difficult to retain; however, there are several exceptions to this guideline. For example, the credit risk policy may be 50 or 60 pages. In such instances, it is imperative to have sufficient identification and pagination techniques to assist the user.

Policies should be an accurate statement, reflecting current institution operations and practices. While utilizing a sample policy is often helpful, the sample policy is just that! Any sample policy should be modified, expanded, changed, and refined to reflect bank-specific daily practices. Furthermore, the policy statement should reflect the directions set by the board of directors, and accordingly, be reviewed and adopted by those directors.

When writing a policy statement, consideration should also be given to responsibility. For example, who will be responsible for maintaining the current copy of the policy, recommending changes to policy, and making and communicating board-approved changes? A historical tracking of policy changes is important for many different governance documents. What was appropriate or bank policy five years ago may no longer be an approved policy.

## **SECTION ONE: THE POLICY DEVELOPMENT PROCESS**

The first section of this book provides an overview of the entire process. It describes in detail:

- Why you need policies
- Where to begin in developing and modifying your policies
- What should be included in your policy statements
- How to write an effective policy
- What regulatory agencies expect with respect to written policy
- How to implement and maintain a policy

## **SECTION TWO: SAMPLE POLICIES**

Sample policies are provided for your reference in the second section of this book. This section provides a comprehensive selection of sample policies covering every major functional area of a bank:

- Executive
- Lending
- Treasury
- Finance
- Security/Loss Prevention
- Operations (Customer Direct)
- Operations (Backroom)
- Data Processing — Technology is so crucial to a bank's success that the regulators have developed extensive requirements and examination policies for bank data processing operations. Although banks are required to maintain extensive policies and procedures to manage these activities, many banks choose to outsource these functions. As a result, the data processing policies are not included in print in Bank Policies, but can be found on the CD that accompanies this manual. Load the files onto your desktop computer, and you can easily customize and print policies by topic or functional area.

Each policy consists of four parts:

1. An introductory outline that summarizes the policy's focus area, regulatory risks that the policy protects against, major policy elements, and other considerations
2. A heading on each policy page that provides identification information
  - Attribution to a specific functional area within the bank
  - Date when the board adopted the policy
  - Date when the policy was last reviewed
  - The individual or department responsible for maintaining the policy

3. The sample policy itself, prepared according to the basic format provided in the detailed discussion of the policy development process
4. A regulatory compliance checklist to be used in evaluating whether new or existing policies meet compliance standards

These sample policies were not designed to fit the needs of every bank, nor could they ever be written to serve this purpose. Rather, banks should use these sample policies as a starting point and then tailor the policies to meet their own specific organizational needs. Furthermore, this book does not focus on the development of procedures related to bank policy. Although certain of the policy statements do, in fact, contain procedural steps and controls, institutions should develop more explicit procedure guidelines on an individual basis.

### **Regulatory Compliance Checklists**

To assist banks in meeting compliance requirements, this book summarizes, in the compliance checklists, each federal regulatory agency's examination procedures for reviewing certain bank policies. After your specific bank policy is completed, we suggest that you use the checklists to evaluate your policy. The procedures summarized in the checklists provide the reader with the opportunity to evaluate a policy through the same review process used by the examiners. These examination procedures should be considered an integral part of the policy planning, development, and implementation process and serve as one of the measures used to judge the overall quality of the resulting policy.

In order to keep your print manual to a manageable size, but also provide you the option of using them in your bank functions, the checklists are included on the CD that accompanies this manual. Load the files onto your desktop computer, and you can easily customize and print checklists by topic or functional area.

### **APPENDIXES**

The appendixes present information issued by various regulatory authorities that pertains to specific bank policies or procedures. These appendixes are cross-referenced in the appropriate policies.

### **YOUR COMPANION CD**

As part of your purchase of Bank Policies you receive a companion CD. This disc contains all of the information in your print manual that shows you how to make sure your policies and procedures are being followed and accomplishing what they were intended to do.

Insert your CD into your desktop computer, and the autoplay feature will assist you in navigating the files. You can search quickly and easily for specific guidance and policies.

### **Customize Your Policies**

From credit risk to integrated financial software systems, the CD contains sample policies for every key area of the bank, checklists, examples of documentation, and clear guidelines you can use for your own policies for your operation.

You can easily customize the documents on the CD using Microsoft Word so that you keep your bank functions current with the latest compliance issues. Sample policies are provided for each key area that you can easily adapt to your bank's specific requirements.