

## How to Use This Manual

The regulatory agencies are continuing to closely monitor and scrutinize bank performance, not only bank earnings but also the bank's safety and soundness and quality of service. Therefore, to effectively demonstrate safety and soundness and quality of service, banks must try to meet, at the very least, the minimum requirements of safety and soundness that the agencies have set forth. Among these requirements is the need for banks to have policies and procedures in place for each functional area. These policies and procedures are the benchmarks by which you are judged by your regulators. Therefore, to comply with this regulatory requirement, you must develop policies and procedures that are in writing, organized, and clearly present your intention to closely monitor the safe and sound operations of your bank.

*Lending Operations Policies and Procedures* is designed to meet the needs of various individuals — from policy developers to those managing the work of others. For those who manage the business of financial services, whether you are a start-up bank or an established one, this manual offers methods for analyzing, documenting, and establishing written procedures for policy areas that the board of directors adopts. In addition, the manual tells you how to write expanded procedures or how to write procedures for the first time. It can be used as a training guide, or compliance officers or auditors can use it to evaluate the work flow and performance of others.

The manual contains six parts:

- An explanation of the policy and procedure development processes
- Sample policies
- Sample procedures
- Compliance checklists
- Policy implementation worksheets
- Appendix

Each part is described below.

### THE POLICY AND PROCEDURE DEVELOPMENT PROCESS

The first part of this manual gives you an overview of the entire process, including:

- Which regulatory agency requirements to consider, where applicable
- How to implement new or revised procedures
- Why you need policies
- Why you need procedures
- Where to begin in developing and modifying your policies
- How to write an effective policy
- What regulatory agencies expect with respect to written policy
- What should be included in your policy statements
- How to implement and maintain a policy

- Where to begin in developing procedures
- How to write effective procedures
- How to modify existing procedures
- What you should include in your procedural documents

## **SAMPLE LENDING POLICIES**

Sample lending policies are provided for your reference in the second section of this book. This section provides a comprehensive selection of sample policies covering every aspect of lending.

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
  - 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 or bank holding companies should use these sample policies as a starting point and then tailor the policies to meet their own specific organizational needs. Certain of the policy statements contain procedural steps and controls, and institutions should develop more explicit procedure guidelines on an individual basis.

## **SAMPLE PROCEDURES**

Included in this portion are procedures for the important lending functions of a bank. You can use these or modify them as you see fit.

Each procedure includes the following components:

- *Divisional Responsibility.* Divisional responsibility relates to the division or department and then the specific officer, supervisor, or manager responsible for the procedures.
- *Procedure Implementation Date.* Forms, disclosures, logs, calculations, procedural step changes, and the dates of change are significant. To ensure that current procedures have been circulated and are instituted by staff and management, the procedures should be dated.
- *Procedure Format.* Each procedure should be written in a consistent format, addressing the following main elements:
  - *Purpose.* What the purpose of the procedures is, in terms of the procedure's relationship to the existing policy and the objectives of following the stated procedures.

- *Work Steps.* The specific work steps address job activities, guidance on performing a specific event, guidance on using formulas or completing forms, training, control considerations, including departmental testing to ensure accuracy, timeliness, and integrity of data or performance, and compliance with adopted policy, periodic procedures to update or review quality of procedures, and if required, performance reporting to the board of directors.
- *Sample Forms.* When procedures refer to completing a form, specific examples are included.

The procedures should be used as a starting point from which you can tailor them to meet your bank's own specific situation or requirements.

## **POLICY 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 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.

## **PROCEDURES CHECKLISTS**

Writing procedures can be a challenging task. Frequently, you must incorporate regulatory requirements, internal bank steps, and internal control considerations into one document. A good starting point is to use the procedures in this manual for ideas. In addition, the following checklists provide an additional tool for bankers to use in establishing or reviewing procedures.

The checklists contain a series of questions that touch on the elements needed in the procedures. The checklists are specific and follow the policies and procedures relationship already established between the corresponding policies and procedures in this manual. A manager or management group can review a checklist and verify that the set of procedures being created contains the necessary elements or can check an existing set of procedures to ensure that coverage is complete. The checklists can be used periodically by bank management to ensure that changing regulatory and industry standards are incorporated into the bank's existing procedures.

The checklists address both administrative issues (e.g., when a policy was last reviewed and who reviewed the current set of procedures) and specific elements. The checklists are also an efficient way to document management's periodic review and to quickly identify missing or outdated elements within the procedures.

Management should respond to all questions in the checklist that apply. For each question answered "no," management should provide a written explanation of why the element is not included in the procedures. The checklists should be maintained for review by internal auditors, external auditors, and bank examiners until the next periodic review occurs.

## **APPENDIXES**

Finally, the appendixes to this book include several checklists and forms that will assist you in the planning process. Appendix A of this book is a policy needs checklist for use in assessing your bank's policy needs. The checklist requires you to consider the interaction between policy and the bank's long-range plans, current business plans, initiatives, and market challenges. In using this checklist, you should focus on specific functional areas within the bank and determine whether they require specific bank management direction in the form of policies. Use this checklist periodically, but no less than annually, to evaluate which areas are important to your bank and

therefore require formal policy documentation. This approach is recommended to ensure that the board and senior management remain involved in maintaining internal bank policies.

To assist your bank in conducting an annual review of policies, we have provided a sample policy tracking form in Appendix B, which can be used to track policies by functional area, responsibility, and last review date. You may use this form or adopt a similar format to document efforts made by the board of directors to ensure that policies are developed, adopted, and in place for your bank. The completed form should be included in the board's minutes; beyond this, we recommend that you give a copy of the form to the regulators. The form makes a proactive statement about actions taken by the board of directors to develop formal policy.

Appendix C contains a pre-opening policy analysis form which is taken from the OCC's *Handbook for National Bank Examiners*. This should serve as a reminder of the importance the regulator's place on policies.

To help you through the process of implementing the policies, Appendix D includes a policy implementation flowchart, a time schedule for writing the policy, a general policy review matrix, and policy implementation worksheets.