

RESCINDED

Consumer Lending Program

Replaced by Comptroller's Handbook - Installment Lending

EXAMINATION OBJECTIVES

To determine if the established policies, procedures, and strategic plans regarding consumer lending adequately address safety and soundness, profitability, and compliance with laws and regulations.

To determine if institution officers and employees conform to the established guidelines.

To determine if officers and employees are able to perform their duties and responsibilities in a manner that ensures safety and soundness, profitability, and compliance with laws and regulations.

To determine if financial records and management reports provide accurate and necessary information to assist management and the directors in fulfilling their responsibilities.

To determine the adequacy of the audit function(s) in this area.

To determine the adequacy of the internal loan review function in this area.

To evaluate the credit quality of the consumer lending portfolio.

To initiate corrective action when deficiencies exist that could affect safety and soundness, or when you identify violations of laws or regulations. (Examination and supervisory personnel may initiate corrective action depending on regional office policy.)

EXAMINATION PROCEDURES

LEVEL I

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1. Review scoping materials related to this program.

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2. Review the preceding report of examination and all consumer lending related exceptions noted and determine if management has taken appropriate corrective action.
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3. Review the Matters Requiring Board Attention and Corrective Actions from the three or four previous ROEs to ensure that the board and management have taken appropriate corrective action where necessary and persistent problems have not recurred.

4. Coordinate with the examiner assigned the review of the institution's lending policies and procedures to determine the accuracy of the policies and procedures through:
 - Review of policy statements, underwriting guidelines, and manuals.
 - Review of compliance with the consumer lending projections set forth in the business plan.
 - Interviews with management.
 - Review of minutes related to this area.

5. Determine whether management and the board periodically review objectives and related policies, and communicate any changes to the appropriate personnel.

6. Obtain the following reports and schedules applicable to the consumer loan area:
 - Delinquent loans.
 - Classified loans.
 - Loans for which interest is not being collected in accordance with terms of the loan.
 - Loans where the institution has modified terms by reduction on interest rate or principal, or by other restructuring of repayment terms.
 - Extensions of credit to insiders.

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- The overdraft report and the list of individuals authorized for overdraft protection.
- Miscellaneous loan debit and credit suspense accounts.
- Loans considered problem loans by management.
- The current interest-rate structure and schedule of fees.
- Useful information resulting from review of minutes of the loan committee.
- Reports furnished to the loan committee.
- Reports furnished to the board of directors.
- Loans classified during the previous examination.
- The nature and extent of loans serviced.

7. Determine if the institution engages in high-risk consumer lending, such as subprime lending, the purchase of high-risk or subprime loans from other institutions, or the purchase of subsidiaries that engage in subprime lending. If so, complete the subprime lending procedures in Appendix B.

8. Determine whether the classification and charge off of delinquent consumer credit are in compliance with the institution's policies and the Interagency Uniform Retail Credit and Account Management Policy. (See CEO Memo No. 128.)

9. Review the adequacy and accuracy of management reports.

10. Review the qualifications, capabilities, and expertise of consumer loan officers in relation to their responsibilities.

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11. Ascertain compliance with laws, rulings, and regulations pertaining to consumer lending.

12. Review the institution's use of modeling and credit scoring.

- Detail the types of models/scorecards used (for instance, generic/custom, vendor, etc.), by application.
 - Determine whether the development process is consistent with the institution's ability to undertake risk and its desired portfolio objectives.
 - Evaluate the ongoing monitoring and maintenance process in view of the portfolio's performance.
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13. Determine that the institution uses all scorecards for purposes consistent with the development process/populations. If not (for instance, applied to an entirely different product, new/unproven geographic area, etc.), assess the possible results.

14. Review the documentation supporting the institution's scoring models to:

- Ensure the scoring models are empirically derived and statistically sound.
 - Ensure the institution periodically monitors the factors and customer characteristics to determine whether they continue to effectively predict credit performance.
 - Determine whether the credit scores permit the institution to predict overall risk and the potential impact on collection activities.
 - Determine that the models stress test the population so they are able to predict delinquencies and losses over varying economic conditions.
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15. Review management of the institution's scoring system to ensure that:
- Systems continue to reflect current underwriting standards and risk parameters.
 - Management maintains a portfolio chronology log to record significant events related to the credit acquisition process for each consumer portfolio. Review the log.
 - The institution revalidates the scorecards as necessary. Review the report of the last validation.
 - The institution supervises and maintains the scoring systems in accordance with vendor-provided specifications and recommendations (as specified in the scoring manual).
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16. Complete the General Questionnaire.

17. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from performance of Level I procedures.

LEVEL II

18. Test a sample of loans for compliance with established policies and procedures. (For details on sampling, refer to Examination Handbook Section 209.) The extent of testing will depend on preliminary findings, and the review of work performed by the auditors and internal loan review personnel.

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19. Review the reconciliation of the subsidiary ledgers for consumer loans with the general ledger. Investigate any large unreconciled items.
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20. If policies, procedures, and reports are determined to be inadequate, it may be necessary to review loans for asset quality. If so, select borrowers for examination review using an appropriate sampling technique. If the outstanding balance or credit line of a large-dollar, high-risk loan is material, consider including some of these loans for individual classification review. (Discuss such large dollar loans with the examiner assigned to Examination Handbook Section 211.)
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21. Analyze credit files for all borrowers for whom you prepared line sheets for the following concerns:
- Credit quality (earnings, indebtedness, credit history, loan modifications).
 - Adequacy of loan and collateral documentation (loan-to-value ratios, age of collateral, perfection of security interests, evidence of hazard insurance).
 - Compliance with the loan policy.
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22. Analyze the institution's pricing of its consumer loans to determine if it considers all costs, including expected losses, operating expenses, and cost of funds in the pricing model. (The institution should do this for each loan product.)
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23. Review the institution's loan modification/extension/rewrite/deferral policy. Determine if the policy is reasonable and complies with the Interagency Uniform Retail Credit Classification and Account Management policy.)
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24. Review delinquency and repossession reports. Determine if the institution tracks delinquencies and loan losses by product type and by production facility, such as loan officer, branch office, or outside broker.
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25. Determine if the institution has taken steps to curtail or modify problem lending, whether it be due to poor underwriting policies and procedures, the risks inherent in a particular loan type, or deficiencies in the loan production facility.
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26. Determine the adequacy of collection procedures and whether practices conform to policy. Consider whether the institution takes the following steps:
- Actively use and maintain up-to-date collection cards (contact records).
 - Accord special handling for first payments defaults.
 - Make timely telephone contacts and follow up broken promises of payment within a reasonable period.
 - Ensure outside repossession agents are licensed and bonded.
 - Account for repossession separately by customer name, loan balance, date of repossession, and dealer origin.
 - The institution has written procedures for the disposal of repossessed property that require the institution to dispose of vehicles in a timely manner (standard 15 days after the expiration of the customer redemption period). Determine whether the institution documented the method of sale and received competitive bids.
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27. Determine projected loan growth.
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28. Ensure that the examination meets the Objectives of this Handbook Section. State your findings and conclusions, as well as appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages.
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LEVEL III

29. Select a sample of accounts and perform direct verification with the borrower.
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30. Reconcile or perform verifications of any accounts as necessary.
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EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

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