Examination Procedures

Lending Activities

Objective. *Assess the adequacy of the bank’s systems to manage the risks associated with lending activities, and management’s ability to implement effective due diligence, monitoring, and reporting systems.*

| **Procedure** | **Comments** |
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| 1. Review the policies, procedures, and processes related to lending activities. Evaluate the adequacy of the policies, procedures, and processes given the bank’s lending activities and the risks they present. Assess whether the controls are adequate to reasonably protect the bank from money laundering and terrorist financing.
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| 1. From a review of MIS and internal risk rating factors, determine whether the bank effectively identifies and monitors higher-risk loan accounts.
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| 1. Determine whether the bank’s system for monitoring loan accounts for suspicious activities and for reporting of suspicious activities, is adequate given the bank’s size, complexity, location, and types of customer relationships.
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| 1. If appropriate, for additional guidance refer to the core examination procedures, “Office of Foreign Assets Control”.
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| **Transaction Testing** |
| 1. On the basis of the bank’s risk assessment of its lending activities, as well as prior examination and audit reports, select a sample of higher-risk loan accounts. From the sample selected, perform the following examination procedures:
* Review account opening documentation, including CIP, to ensure that adequate due diligence has been performed and that appropriate records are maintained.
* Review, as necessary, loan history.
* Compare expected transactions with actual activity.
* Determine whether actual activity is consistent with the nature of the customer’s business and the stated purpose of the loan. Identify any unusual or suspicious activity.
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| 1. On the basis of examination procedures completed, including transaction testing, form a conclusion about the adequacy of policies, procedures, and processes associated with lending relationships.
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