

## RELATED ORGANIZATIONS

### Core Analysis Decision Factors

*Examiners should evaluate the Core Analysis in this section to determine if an Expanded Analysis is necessary. Click on the hyperlinks found within each of the Core Analysis Decision Factors to reference the applicable Core Analysis Procedures.*

**Do Core Analysis and Decision Factors indicate that risks are appropriately identified, measured, monitored, and controlled?**

**C.1. Are bank policies and procedures adequate for the level of transactions among the holding company, affiliates, and subsidiaries? Refer to Core Analysis [Procedures #7-9](#).**

**C.2. Are internal controls adequate? Refer to Core Analysis [Procedures #10-13](#).**

**C.3. Are audit and independent review functions adequate? Refer to Core Analysis [Procedures #14-16](#).**

**C.4. Are information and communication systems adequate and accurate? Refer to Core Analysis [Procedure #17](#).**

**C.5. Are affiliates appropriately separated from the bank and able to operate without threatening the bank's financial condition? Refer to Core Analysis [Procedures #18-28](#).**

**C.6. Do transactions comply with applicable federal and state laws and regulations? Refer to Core Analysis [Procedures #29-33](#).**

**C.7. Are all affiliated organizations adequately capitalized? Refer to Core Analysis [Procedure #34](#).**

**C.8. Do the board and senior management effectively supervise this area? Refer to Core Analysis [Procedures #8-9](#); [Procedure #13](#); [Procedure #16](#); & [Procedures #35-36](#).**

## RELATED ORGANIZATIONS

### Core Analysis Procedures

*Examiners are to consider these procedures but are not expected to perform every procedure at every bank. Examiners should complete only the procedures relevant for the bank's activities, business model, risk profile, and complexity. If needed, based on other identified risks, examiners can complete additional procedures. References to laws, regulations, supervisory guidance, and other resources are not all-inclusive.*

#### Important

*The bank's corporate structure is subject to various laws and regulations, such as the Bank Holding Company Act (BHC Act) of 1956, Regulation W (which implements Sections 23A and 23B of the Federal Reserve Act), and Part 362 of the FDIC Rules and Regulations. A thrift's (savings association's) corporate structure is subject to laws and regulations such as the Home Owners' Loan Act (HOLA), FRB Regulation W, and FRB Regulation LL. These regulations define terms such as conclusive presumption, rebuttable presumption, covered transaction, low-quality asset, and affiliate. (This module includes general descriptions of terms and regulations; examiners should review the actual regulations when necessary for specific guidance and definitions.)*

*Different statutes and regulations have different definitions of affiliate. Affiliate is a broad term and includes the following: (1) Bank holding companies and savings and loan holding companies (SLHCs), (2) insured depository institution (IDI) subsidiaries of the holding company, (3) Nonbank subsidiaries of the holding company, (4) certain subsidiaries of the bank, and (5) Any company that the Federal Reserve determines by regulation or order to be an affiliate. Regulation W also provides that any company that is controlled by 25 percent or more of the shareholders that control 25 percent or more of the BHC/SLHC or IDI is an affiliate for purposes of Regulation W.*

*An IDI is a state bank, national bank, trust company, banking association, or any institution that takes deposits insured by the FDIC, including savings associations (thrifts).*

*Section 312 of the Dodd-Frank Act transferred various powers and duties from the former Office of Thrift Supervision to the FRB, FDIC, and OCC. Under this provision, the FRB has oversight of SLHCs, the FDIC has oversight of state chartered thrifts, and the OCC has oversight of federally chartered thrifts. Examiners should be aware that SLHCs and thrifts are subject to certain restrictions under HOLA if the thrift does not maintain Qualified Thrift Lender status (see [procedure #33](#)).*

#### Preliminary Review

1. Review prior examination reports, the examination planning memorandum, file correspondence, and Federal Reserve holding company inspection reports for an overview of known related organizations and any previously identified criticisms.
2. Review recent external and internal audit reports to determine the scope of the review(s) and to identify criticisms and recommendations regarding transactions between the bank and its affiliates.

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| <p><b>3. Review relationships with holding companies or parent organizations, other affiliates, and subsidiaries using such reports as the FR Y-6, the FR Y-10, the National Information Center (NIC) organizational hierarchy report (FRB), and the holding company organizational chart. Determine possible ownership ties not identified by the institution.</b></p>  |
| <p><b>4. Examine the corporate structure surrounding the IDI and identify affiliate transactions. Carefully consider the following items:</b></p> <ul style="list-style-type: none"> <li>• Policies and practices regarding services and transactions between the IDI and its affiliates;</li> <li>• Tax sharing arrangements and intercompany tax transactions;<sup>1</sup></li> <li>• Affiliated transactions identified from the pre-examination information;</li> <li>• Related interests of principal shareholders, directors, and executive officers; and</li> <li>• Fixed-asset subsidiaries or affiliates.</li> </ul>  |
| <p><b>5. Review the holding company (or other parent organization) and the IDI’s corporate structure for the possibility of a chain banking group.<sup>2</sup> Determine whether the members of the chain-banking group control other companies through 25 percent common ownership.</b></p>   |
| <p><b>6. Review the stockholders listing and most recent proxy statements of the holding company or parent organization. Identify ownership percentages and instances of control that satisfy the definition of control in the BHC Act (Section 225.2(e)) or HOLA (12 USC Section 1467(a)(2)).</b></p>   |
| <p><b>7. Review, to the extent possible, other federal and state examination reports of the IDIs within the single holding company organization or within a chain banking organization for mutually shared risks. Consider the following items:</b></p> <ul style="list-style-type: none"> <li>• Size and complexity of the organizations;</li> <li>• Overall condition of the institutions in the organization;</li> <li>• Extent, type, and quality of transactions among institutions in the organization;</li> <li>• Degree of interdependence among institutions;</li> <li>• Common deficiencies in lending and investment policies;</li> <li>• Possible insider abuse;</li> <li>• Shared employees or management; and</li> </ul> |

<sup>1</sup> Consider the 1998 Interagency Policy Statement on Income Tax Allocation in a Holding Company Structure and the 2014 addendum.

<sup>2</sup> A chain banking group exists when a common individual or company, or group of individuals or companies — acting alone, through, or in concert with any other individual or company — owns, controls or has the power to vote at least 25 percent of the outstanding voting shares of two or more independently chartered IDIs. A multibank holding company and its subsidiary IDIs do not constitute a chain banking group. To be considered part of a chain, the holding company must be linked to other banking organizations through common control.

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| <ul style="list-style-type: none"> <li>• Degree and nature of control exerted over individual institutions (absentee ownership).</li> </ul>   |
| <p><b>Policies and Procedures</b></p>   |
| <p>8. Determine whether policies appropriately address relationships and transactions with related organizations.</p>   |
| <p>9. Determine whether formal or informal employee sharing agreements are appropriate and whether dual employees' work allocation and compensation conform to the agreement. Ensure the agreement:</p> <ul style="list-style-type: none"> <li>• Defines employment relationships between the IDI and affiliate,</li> <li>• Establishes procedures and timeframes for payment,</li> <li>• Is independently reviewed by the board of each affiliate, and</li> <li>• Assigns authority for managing dual employee relationships.</li> </ul>   |
| <p><b>Internal Controls</b></p>   |
| <p>10. Assess the IDI's methods for identifying transactions subject to Sections 23A and 23B of the Federal Reserve Act. Consider the following:</p> <ul style="list-style-type: none"> <li>• Internal reports,</li> <li>• Documentation of covered transactions,</li> <li>• Loan records,</li> <li>• Deposit accounts,</li> <li>• Accounts payable and receivable, and</li> <li>• Board minutes.</li> </ul>  |
| <p>11. Determine the volume and frequency of covered transactions. Determine whether management ensures covered transactions are conducted on terms and conditions consistent with safe and sound banking practices and at readily determinable and well-documented market values. Review for noncompliance or abusive activities. Consider the following items:</p> <ul style="list-style-type: none"> <li>• Prohibitions on IDI's purchasing low-quality assets from an affiliate or using low-quality assets as collateral,</li> <li>• Prohibitions on transferring low-quality assets to an IDI,</li> <li>• Prohibitions on accepting affiliate shares as collateral for loans to affiliates,</li> <li>• Collectibility of receivables,</li> <li>• Collateral requirements,</li> <li>• Restrictions on advertisements and agreements that suggest the IDI is responsible for the obligations of an affiliate, and</li> <li>• Fixed asset arrangements.</li> </ul> |

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| <p><b>12. Review formal or informal agreements regarding management or other fees paid by the IDI to affiliates. Determine whether agreements detail and support the following:</b></p> <ul style="list-style-type: none"> <li>• Fee structures for services provided (e.g., based on asset size, number of employees, hours on-site, comparisons to market rates);</li> <li>• Quality of services;</li> <li>• Qualifications of service providers;</li> <li>• Billings; and</li> <li>• Timing of payments for services.</li> </ul>  |
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| <p><b>13. Assess compliance with regulatory conditions or commitments pertaining to related organizations.</b></p>   |
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| <p><b>Audit or Independent Review</b></p>  |
| <p><b>14. Determine whether the independent review provides sufficient coverage relative to the institution’s size, scope of related organization activities, and risk profile. The independent review typically:</b></p> <ul style="list-style-type: none"> <li>• Determines compliance with policies, procedures, and regulatory requirements;</li> <li>• Assesses separation of duties, internal controls, and supervision of related organization activities;</li> <li>• Assesses the adequacy, accuracy, and timeliness of reports to senior management and the board;</li> <li>• Recommends corrective action, when warranted; and</li> <li>• Verifies that corrective action commitments were implemented.</li> </ul> |
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| <p><b>15. Determine whether the results of audits and independent reviews are promptly reported to the board or a designated committee. If results are presented to a designated board committee, verify that the committee includes at least one outside/independent director.</b></p>  |
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| <p><b>16. Determine whether management’s responses to recent audits or independent reviews are reasonable and whether corrective actions, such as reimbursements, are promptly implemented.</b></p>  |
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| <p><b>Information and Communication Systems</b></p>  |
| <p><b>17. Determine whether management reports provide accurate, timely, and sufficient information relative to the size and frequency of affiliate transactions and the organization’s size and risk profile.</b></p>   |

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| <b>Evaluation of Affiliate Operations</b>   |
| <b>18. Confirm the holding company’s control (ownership, control, or power to vote) of all IDIs, nonbank subsidiaries, and tiered holding companies.</b>  |
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| <p><b>19. Identify ownership levels that have increased to more than 10 percent.</b></p> <ul style="list-style-type: none"> <li>• <b>If any person controls more than 10 percent of the bank holding company stock or thrift holding company stock, determine whether a notice was required to be submitted to the responsible Reserve Bank.</b></li> <li>• <b>For Employee Stock Ownership Plans (ESOPs) or Employee Share Ownership Trusts (ESOTs) controlling or approaching control of more than 10 percent of the bank holding company, determine whether the ESOP/ESOT submitted a notice of agreement to comply with the standard Passive Commitments and whether or not the ESOP/ESOT is in compliance.</b></li> <li>• <b>Determine who votes or controls the ESOP/ESOT shares (usually a trustee or trustees), and determine whether this control is reported on each individual’s applicable regulatory reporting forms and disclosure statements.</b></li> <li>• <b>Determine whether there are financial transactions between the IDI and the ESOP/ESOT and, if so, that the transactions are consistent with Sections 23A and 23B of the Federal Reserve Act.</b></li> </ul> |
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| <b>20. Determine whether there were changes among large shareholders and, if necessary, whether a change in control notice was filed with the responsible regulator.</b>  |
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| <p><b>21. Determine who votes or controls the shares of any trusts owning more than 5 percent of the IDI or bank holding company’s outstanding shares.</b></p> <ul style="list-style-type: none"> <li>• <b>Determine whether the trust is a company as defined in the Bank Holding Company Act (Section 225.2(d)). If so, determine whether the trust submitted notice of ownership to the responsible Reserve Bank, whether any commitments are in place, and if so, compliance with the commitments.</b></li> <li>• <b>Determine whether the trust, when combined with other shares owned or controlled by the same individual or group of individuals, meets the definition of a bank holding company, and if so, has filed appropriate applications with the Federal Reserve Bank.</b></li> </ul>   |
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| <b>22. Determine whether all required regulatory filings were submitted and are accurate (e.g., FR Y-6, FR Y-10, Notice of Change in Control).</b>  |
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**23. Analyze the holding company’s balance sheet, income statement, and statement of cash flows; and review the most recent holding company inspection report, rating, and Officer’s Questionnaire. Consider, with particular scrutiny when the IDI’s condition is dependent on direct financial support from the parent company, the:**

- **Origin of long-term debt, short-term debt, unamortizing debt, and the level of pressure exerted on the bank to upstream dividends;**
- **Level of holding company or parent-organization borrowings used to provide equity contributions to the subsidiary bank (double leverage);**
- **Parent company cash flow sources and uses (note any undue reliance on bank dividends or management and service fee income from the IDI);**
- **Ability of the parent company to borrow funds or raise capital, if needed, for the injection of capital into the IDI(s);**
- **Holding company or parent organization’s transactions with subsidiaries;**
- **Timing and amount of quarterly income tax payments and settlement payments by and between the bank, the parent and the IRS;<sup>3</sup>**
- **Level and trend of affiliate deposit relationships maintained at the IDI; and**
- **Merchant banking or other activities at the holding company or parent organization that may affect credit decisions at the IDI level.**

**24. Review the management structure and programs of the holding company or parent organization and its subsidiaries. Assess the effect(s) on the IDI and ensure compliance with applicable regulations and statutes. Consider the following issues:**

- **Level of centralized control by the holding company or parent organization over the IDI and non-bank subsidiaries;**
- **Access to management, audit, and loan review expertise or services and the potential benefits from economies of scale;**
- **Training programs and their ability to foster consistency among the management of sister IDIs and non-bank affiliates;**
- **Movement of officers between the IDI, holding company, and non-bank affiliates and the potential benefit to management succession planning (note any unfilled positions in the IDI);**
- **Management contracts (and supporting documentation) between the holding company or parent organization and the IDI or non-bank subsidiaries; and**
- **Allocation of IDI management’s time devoted to IDI, holding company, or other affiliate issues.**

**25. Determine whether fees (such as management, service, lease, or other fees) paid between the IDI and its affiliates are proportional to the value of the goods or services provided or received. Determine whether:**

- **Service contracts are in place between the IDI and the affiliates;**

<sup>3</sup> Refer to the 1998 Interagency Statement of Policy - Income Tax Remittance by Banks to Holding Company Affiliates and the 2014 Addendum to the Interagency Policy Statement on Income Tax Allocation in a Holding Company Structure for additional information.

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| <ul style="list-style-type: none"> <li>• Fees are based on the fair market value of services provided or, when there is no market, based on actual costs plus a reasonable profit;</li> <li>• Service and pricing factors are thoroughly supported and documented;</li> <li>• Transactions comply with applicable laws and regulations; and</li> <li>• The IDI is reimbursed promptly for all funds due from an affiliate.</li> </ul>   |
| <p><b>26. Determine the extent of deposit gathering activities performed by employees of affiliates, and the potential application and reporting requirements of brokered deposit regulations.</b></p>  |
| <p><b>27. Review mortgage banking activities or servicing contracts with affiliates. When applicable, consider:</b></p> <ul style="list-style-type: none"> <li>• The capacity in which the affiliate is acting (as principal, on behalf of, or as agent for the IDI);</li> <li>• The nature of the services provided;</li> <li>• The transfer of low-quality assets from an affiliate to an IDI via purchase or sale;</li> <li>• The adherence to regulatory requirements for mortgage servicing rights;</li> <li>• The billing arrangement, frequency of billing, method of computation, and basis for fees;</li> <li>• The method for compensating the IDI for balances maintained, and net interest earned on warehouse loans and lines (this method should not be preferential);</li> <li>• The pricing of loans and sales of servicing rights;</li> <li>• Risks related to mortgage servicing, delinquent loans, and foreclosed assets; and</li> <li>• Whether asset purchases, including servicing rights and extensions of credit, satisfy the quantitative, collateral, and safety and soundness requirements of Section 23A of the Federal Reserve Act.</li> </ul> |
| <p><b>28. Analyze the financial information and operating policies of affiliates and determine whether they may be detrimental to the IDI's financial position. Consider the following items:</b></p> <ul style="list-style-type: none"> <li>• Quality of assets,</li> <li>• Funding needs,</li> <li>• Fees received from the IDI,</li> <li>• Salary structure of subsidiary's officers and shared officers, and</li> <li>• Financial condition of the subsidiaries.</li> </ul>   |
| <p><b>Compliance with Other Applicable Regulations</b></p>  |
| <p><b>29. Confirm that the IDI's loan agreements do not restrict a borrower from obtaining credit, property, or service from a direct competitor of the holding company/parent organization or the holding</b></p>  |

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| <p>company's/IDI's subsidiaries as a condition of credit.<sup>4</sup> For a thrift, confirm that the thrift complies with the anti-tying provisions outlined in Section 5(q) of HOLA.<sup>5</sup></p>  |
| <p>30. Determine whether IDI customers who purchased financial products of affiliated organizations were notified of the affiliate relationship. If the customer received IDI financing to purchase the assets, determine whether the transaction was subject to and complies with Regulation W.</p>   |
| <p>31. Determine whether the subsidiaries' activities are permissible and comply with appropriate federal and state laws and regulations.</p>  |
| <p>32. Assess corporate, management, and physical separations that exist between the IDI and affiliated organizations.</p>   |
| <p><b>Qualified Thrift Lender</b></p>  |
| <p>33. Determine the potential financial impact on a savings association (or state savings or cooperative bank that has been deemed a savings association under Section 10(l) of HOLA) if the savings association fails to maintain qualified thrift lender (QTL) status and the SLHC:</p> <ul style="list-style-type: none"> <li>• Is no longer eligible to engage in activities permissible for certain unitary SLHCs (Sections 10(c)(3) and 10(c)(9)(C) of HOLA),</li> <li>• Is no longer eligible to continue certain grandfathered activities permissible for certain unitary SLHCs (Section 10(c)(6)(B) of HOLA), and</li> <li>• Is required to convert to a BHC within one year of the association failing to maintain QTL status (Section 10(m)(3)(C)) and is no longer eligible to engage in activities permissible for SLHC's but not BHCs.</li> </ul> |
| <p><b>Affiliate Capitalization</b></p>   |
| <p>34. Determine whether affiliates comply with the capital requirements of their functional regulator.</p>  |
| <p><b>Board and Senior Management Supervision</b></p>  |

<sup>4</sup> These anti-tying provisions of the BHC Act are not intended to restrict the bank's ability to impose debt limitations on borrowers.

<sup>5</sup> Regulation LL (FRB) Section 238.7 outlines exceptions to thrift-related tying restrictions.

**35. Determine whether the board reviews all affiliate relationships at least annually and approves all agreements between the IDI and any related organizations.**

**36. Determine whether all affiliate relationships have adequate supervision by IDI officers.<sup>6</sup>**

**End of Core Analysis. If needed, Continue to the Expanded and Impact Analyses.**

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<sup>6</sup> Affiliate relationships should be subject to the same standards as any unaffiliated third party relationship.