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**GENERAL INSTRUCTIONS**

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These instructions apply to all safety and soundness Reports of Examination (ROE), except those targeted reviews of banks included in the Large State Nonmember Bank Onsite Supervision Program.

**References**

Examiners should also apply the guidance detailed in the following directives:

- Federal Deposit Insurance Act, FDIC Rules and Regulations, and related statutes and regulations,
- FDIC and other applicable Statements of Policy,
- Instructions for the Preparation of Reports of Condition and Income (Call Reports),
- The User's Guide for the Uniform Bank Performance Report (UBPR),
- RMS Manual of Examination Policies (Manual),
- State Statutes and Regulations,
- FFIEC Information Technology Examination Handbooks,
- Outstanding Memoranda,
- Financial Institution Letters,
- Uniform Financial Institutions Rating System,
- Uniform Rating System for Information Technology,
- Uniform Interagency Trust Rating System, and
- Statements of FDIC Board of Directors

Unless otherwise specified, complete Report financial schedules according to Call Report Instructions.

*Reminder:* Reports may be affected by changes to definitions, laws, regulations, Call Report Instructions, and regulatory policies within the aforementioned references. When significant Report changes occurred since the previous examination, use footnotes on the applicable report pages to explain the difference(s). Do not footnote minor changes.

**Report Comments, Supervisory Recommendations, and Matters Requiring Board Attention**

As used in these instructions, the term “report comments” refers generally to text set forth in the ROE. The term “supervisory recommendation” refers to FDIC communications with a bank that are intended to inform the bank of the FDIC’s views about changes needed in its practices, operations or financial condition. A principal purpose of supervisory recommendations is to communicate supervisory concerns to a bank so that it can make appropriate changes in its practices, operations or financial condition and thereby avoid more formal remedies in the future, such as enforcement actions. All supervisory recommendations must address meaningful concerns, communicate concerns clearly and in writing, and discuss corrective action. Supervisory recommendations are not formal or informal enforcement actions, but they are communications of FDIC expectations of banks. The Statement acknowledges that bankers take seriously supervisory recommendations made by FDIC personnel; accordingly, care should be taken in their development and communication.

In the context of the ROE, supervisory recommendations include recommendations communicated on the Examiner’s Comments and Conclusions (ECC) page, and recommendations communicated on other report pages, such as the Risk Management Assessment page. Most supervisory recommendations are generally correctable in the normal course of business. However, when there are material issues and recommendations that require the attention of the institution’s board of directors and senior management, examiners must communicate concerns using Matters Requiring Board Attention (MRBA). MRBA are a subset of supervisory recommendations. It is FDIC policy to make supervisory recommendations in writing in the ROE or a transmittal letter. No supervisory recommendations are to be made orally.

**Writing Report Comments and Supervisory Recommendations**

ROE comments should be fact-based, professional, and objective. Proper presentation of factual information can be very persuasive and will ordinarily be more effective than criticism alone in achieving the desired response from bank management. Use clear, concise, well-organized, language appropriate to the subject or field and the intended audience. Simple language and short sentences are generally the most effective.

*Use an Effective Writing Style.* While each examiner will develop an individual style of writing comments and recommendations, the following suggestions may be helpful in increasing effective communication:

- Accurate and descriptive topical headings, in order of importance, promote reader interest.
- Comments should be as brief as is consistent with clarity.
- Comments should be factually objective and not phrased as criticisms of particular individuals.
- Comments on matters not subject to criticism or recommendation, on minor matters, or on unsatisfactory practices corrected during the examination should be limited.
- Ratios, or percentages, are meaningful to examiners, but their significance is not always apparent to bankers and particularly bank directors. Therefore, examiners should not rely upon ratios alone to convey the ideas they wish to express on this page. When ratios are cited, they should be in support of a conclusion or recommendation, and their import should be made understandable to the reader.

*Explain the Basis for any Supervisory Recommendations or Concerns.* The ROE should describe the potential consequences of inaction or the benefit of corrective action to the institution related to implementing a recommendation or correcting a deficiency before the issue leads to deterioration in operations or financial performance. The ROE should factually document bank management and Board commitments for correcting the noted weaknesses.

*Reminder on Major Matters.* Supervisory recommendations that could establish or change existing FDIC policy, attract unusual attention or publicity, or would involve an issue of first impression must be discussed with regional office management. Regional office management should raise any such matters with senior RMS management for consideration as a Major Matter under the FDIC Board's Major Matter Resolution.

*Peer Group Information* - Examiners may use UBPR or user-derived ratios and peer group comparisons to support comments. However, examiners should avoid over reliance on peer group comparisons.

*Apparent Criminal Violations* - Examiners must not discuss criminal referrals or apparent criminal violations in the open section of the ROE. All comments in confidential report pages or workpapers should be limited to clear-cut statements of fact. Examiners must not include opinions about the probability of indictment, conviction, or related matters. Comments should be as specific as possible and identify who reported an issue and how it occurred. Do not use language such as, "It is reported..." or, "Management indicated..." Instead, use language such as, "President Scott reported..."

**Consolidated and Institution-Only Schedules**

Examiners should complete ROE schedules on a consolidated basis in accordance with Call Report instructions and generally accepted accounting practices. Institution-only schedules, or a list of an institution's investments in subsidiaries, may be included in ROEs when they add meaningful information. Institution-only schedules may be meaningful when:

- A material volume of a subsidiary's assets is adversely classified and inclusion of institution-only schedules highlight a concentration of risk in a subsidiary,
- A material amount of an institution's assets or capital is invested in a subsidiary and inclusion of institution-only schedules helps explain an examination concern (such as weak core earnings), or
- An institution is at risk of failing and inclusion of institution-only schedules might help the bank's board or regulatory authorities develop recovery or resolution strategies.
- Examiners should create institution-only pages on continuation pages. Often, simple lists of investments in each subsidiary are adequate.

## Report Dates

The Report uses four different dates:

- **Examination as of Date** - This is the date of the financial information analyzed throughout the Report, generally the most recent quarter-end Call Report data available. For example, if an examination commences on August 31, and June 30 financial data is available, the Examination as of Date would likely be June 30.
- **Examination Start Date** - This is the date the examination commenced, typically, the date when the examination team begins formal on-site examination of the institution. It is used to monitor ROE completion times and the length of time between examinations.
- **Date Examination Completed** - This is the date the examiner formally completes the examination and submits the ROE for review. The date is used to monitor ROE completion and processing times.
- **Asset Review Date** - This is the date of the asset data analyzed in the loan review, and often the investment portfolio and other real estate reviews. Although the date could be the same as the Examination as of Date, often examiners are able to obtain more current information. For example, if an examination commences on August 31, and July 31 loan data is available, the Asset Review Date might be July 31. Note the Asset Review Date on the Confidential-Supervisory Section page and within the Asset Quality comment on the Examination Conclusions and Comments (ECC) page.

**Selection of the Examination as of Date and the Asset Review Date** - When selecting these dates, examiners should consider the availability of the information (quarter-end Call Report data is generally not available until 45 days after the quarter end), the amount of time institutions need to compile requested information, and any material changes that occurred between the dates.

When significant changes in the composition of the balance sheet occur between the Examination as of Date and the Asset Review Date, make appropriate comments in the Report. There may be circumstances when a more recent month-end date would better serve as the Examination as of Date (rather than the most recent quarter-end).

## Page Order and Numbering

Page order is addressed in the Inventory of Report Pages section.

All pages in the open section are sequentially numbered. Sequential numbering continues through the confidential section, but the pages are not listed in the Table of Contents. The Table of Contents lists the titles and page numbers of all open section pages. The sequence of pages should generally follow the pages listed in the Inventory of Report Pages. When user-defined pages are included, they should be included where most appropriate, but not before the Risk Management Assessment (RMA) page.

Generally, do not number the Officer's Questionnaire. However, if the Officer's Questionnaire is included in the Report, numbering may be appropriate when the Officer's Questionnaire is lengthy. In such instances, the letters OQ should precede the number (for example, OQ.1, OQ.2, and OQ.3).

## Supplemental Pages

Supplemental (non-mandatory) pages should be used to support the conclusions, recommendations, and ratings on the ECC page. The Bank of Anytown ROE includes many supplemental pages that provide guidance for formatting the pages. The sample pages do not necessarily provide examples of comments that support ECC page conclusions.

## Rounding

**Numbers/Dollar Amounts** - Examiners may round dollar amounts to the nearest thousand and omit "000." In narrative comments, "M" is the acceptable abbreviation for thousands. Examiners should round amounts consistently throughout the Report and not use abbreviations like \$2.5MM, \$2,500M, and \$2,500,000 interchangeably.

In the Items Subject to Adverse Classification and the Items Listed for Special Mention pages, round to the nearest thousand and omit "000" in both the heading and the extended criticized amount (refer to the Bank of Anytown). In narrative comments, the numbers and dollar amounts may be rounded and abbreviated; however, it is acceptable to use precise dollar or numerical amounts to avoid confusion. *Example:* The \$25,000 loan is secured by a mortgage on a 1,800 square-foot condominium valued at \$31,500, or \$17.50 per square foot.

When rounding, minor adjustments may be necessary to balance related totals in the Report.

## Ratios

Generally, round percentages to the nearest hundredth of a percent, especially critical ratios such as Prompt Corrective Action capital ratios in problem institutions. Round noncritical or imprecise ratios to the nearest whole number.

## Abbreviations

**MRBA, ECC, and Compliance with Enforcement Actions (CEA) pages** - An abbreviated term must be spelled out the first time it is used, with the abbreviation enclosed in parentheses following the term.

**Other Report Pages** - A list of standardized abbreviations for use on the other Report pages is provided on the back cover of the Report (shown in Appendix A).

*Note:* The effectiveness of Report comments is significantly diminished if the overuse of abbreviations makes a document harder for readers to understand by forcing them to refer to the list of approved abbreviations too often.

## Writing Style and Grammar

Examiners should follow [Federal Plain Language Guidelines](#) when completing ROE comments, including loan write-ups. Following the guidelines helps improve the effectiveness of Reports by making comments and recommendations easier for directors and managers to understand. Therefore, examiners should consider the needs of their readers and avoid the use of jargon, and overuse of technical terms, acronyms, adjectives, and adverbs. When considering whether to use an abbreviation, or how many to use in a comment, examiners should keep in mind that abbreviations should make comments easier for readers to understand. The effectiveness of comments and loan write-ups is significantly diminished if the overuse of abbreviations make a document harder for readers to understand by forcing them to refer to the list of approved abbreviations too often.

Listed below are a few style and grammar conventions that should be used in the Report. Refer to the Federal Plain Writing Guidelines; Appendix B (Grammar and Punctuation Guide), of this document; and references such as dictionaries and writer's handbooks for additional guidance.

**Footnotes** - For ROE pages that have a section titled Footnotes, use the section for footnotes and not for comments.

**Dollar signs** - Use dollar signs in narrative comments, but not tables.

**Commas** - Use commas in amounts of 1,000 or more.

**Spaces** - Use two spaces between sentences.

**Negative figures** - Consistently enclose negative figures in parentheses or refer to them as negative values. Reminder: Do not write double negative numbers.

*Examples:*

*Correct:* The borrower reports a negative NW of \$25M.

*Or*

The borrower reports a NW of (\$25M).

*Incorrect:* The borrower reports a negative NW of (\$25M).

**Names** - On the first reference to a person in the Report, generally use the complete title, first name, middle initial, and last name (for example, Senior Vice President (SVP) John A. Doe). After the initial reference, an abbreviated name may be used (SVP Doe), if confusion with other officers is unlikely. Use references consistently throughout the Report.

**Financial Ratios** - Typically, UBPR financial ratios are uploaded into the ROE through automated examination tools. The most current information should be in the left column on all pages. Manually calculated ratios should conform with UBPR Users Guide definitions and be footnoted as having been manually calculated.

## INVENTORY OF REPORT PAGES

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### Report of Examination Page Order

*Items in bold font indicates a mandatory schedule or a schedule that is mandatory when applicable.*

Page	Section	Mandatory
<b>Cover</b>	<b>Open</b>	<b>Yes</b>
<b>Table of Contents</b>	<b>Open</b>	<b>Yes</b>
<b>Matters Requiring Board Attention (MRBA)</b>	<b>Open</b>	<b>Yes, when applicable</b>
<b>Examination Conclusions and Comments (ECC)</b>	<b>Open</b>	<b>Yes</b>
<b>Compliance with Enforcement Actions</b>	<b>Open</b>	<b>Yes, when applicable</b>
Risk Management Assessment (RMA)	Open	No
<b>Violations of Laws and Regulations</b>	<b>Open</b>	<b>Yes, when applicable</b>
<b>Information Technology and Operations Risk Assessment (ITA)</b>	<b>Open</b>	<b>Yes</b>
Fiduciary Activities Assessment (FAA)	Open	No
<b>Examination Data and Ratios (EDR)</b>	<b>Open</b>	<b>Yes</b>
Comparative Statements of Financial Condition	Open	No
Loans and Lease Financing Receivables	Open	No
Recapitulation of Securities	Open	No
Items Subject to Adverse Classification	Open	No
Items Listed for Special Mention	Open	No
Analysis of Loans Subject to Adverse Classification	Open	No
Analysis of ORE Owned Subject to Adverse Classification	Open	No
Assets with Credit Data or Collateral Documentation Exceptions	Open	No
<b>Concentrations</b>	<b>Open</b>	<b>Yes, when applicable</b>
Capital Calculations	Open	No
Analysis of Earnings	Open	No
Comparative Statements of Income and Changes in Equity Capital Accounts	Open	No
Relationships with Affiliates and Holding Companies	Open	No
Extensions of Credit to Directors/Trustees, Officers, Principal Shareholders, and Their Related Interests	Open	No
Internal Routines and Controls	Open	No
<b>Composite Rating Definitions</b>	<b>Open</b>	<b>Yes</b>
<b>Signatures of Directors/Trustees</b>	<b>Open</b>	<b>Yes</b>
<b>Officer's Questionnaire</b>	<b>Open</b>	<b>Yes*</b>
<b>Confidential – Supervisory Section</b>	<b>Confidential</b>	<b>Yes</b>
<b>Directors/Trustees and Officers</b>	<b>Confidential</b>	<b>Yes*</b>

*\*Page must be completed at each examination (to collect data), but inclusion in ROEs is optional.*

### International Report Page Order

Examination Data and Ratios (International)	Open	Yes, when applicable
Transfer Risks Subject to Classification or Comment	Open	Yes, when applicable
Analysis of the Country Exposure Management System	Open	Yes, when applicable
Selected Concentrations of Country Exposure	Open	Yes, when applicable

For International ROE: Use the EDR (International) page, in lieu of the standard EDR page, in the core section of the Report. Place International Report Pages immediately after the Items Subject to Adverse Classification and Items Listed for Special Mention pages.

**MATTERS REQUIRING BOARD ATTENTION (MRBA)**

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**Purpose**

MRBA are a subset of Supervisory Recommendations,<sup>1</sup> which are an FDIC communication intended to inform the institution of the FDIC's views about changes needed in its practices, operations, or financial condition to help directors prioritize their efforts to address examiner concerns, identify emerging problems, and correct deficiencies before the bank's condition deteriorates (or to keep the bank viable if conditions already deteriorated). A principal purpose of supervisory recommendations is to communicate supervisory concerns to a bank so that it can make appropriate changes in its practices, operations or financial condition and thereby avoid more formal remedies in the future, such as enforcement actions

A MRBA is defined as an issue or risk of significant importance that requires board attention. Examples of matters requiring board attention that could warrant highlighting include:

- Emerging issues in which the board needs to be more proactive in establishing policy and risk management parameters;
- Policy weaknesses that, if left unaddressed, could increase the institution's risk profile or, adversely affect the condition of the institution;
- Ineffective management;
- Repeat examination recommendations or regulatory, audit, or risk management criticisms that have escalated in importance;
- Enforcement action provisions requiring continued attention (these should be included in one summary bullet point); or
- Significant noncompliance with laws, regulations, or the bank's own policies.

**When To Include This Schedule**

Examiners must use this schedule whenever MRBA are included in the ROE to briefly highlight material issues and recommendations that require prompt attention by the directorate and senior management and follow-up by regulators between examinations. When the MRBA page is included in a Report, place it before the ECC page.

Deficiencies and recommendations that management can address in the normal course of business should be included in the ECC, RMA, or other supporting pages.

**Comment Structure**

MRBA should be brief, addressed to the board of directors, and include:

- An introductory statement to explain the purpose of the MRBA comments.
- For each MRBA, a description of the practice or condition that is of concern, a description of the corrective action needed, and a description of the potential consequence of the inaction or non-timely action to the bank's financial condition or operations. Comments should be informative and persuasive by describing the risk(s) associated with an issue and the benefits of corrective action, or consequences of inaction, to the institution and board of directors. The comment should not highlight the threat of potential, escalated supervisory action. In cases where conditions have already deteriorated, comments should prompt the board and senior management to take immediate action to correct deficiencies.
- A statement reminding the directorate and senior management of the importance of addressing the noted issues and its responsibility to respond appropriately to the matters highlighted in the schedule and informing them that there will be follow-up by regulators between examinations.

The MRBA should be listed in order of importance. As with all Supervisory Recommendations, MRBA are expected to be meaningful, actionable, fully supported and clearly communicated. For example, "develop a plan to reduce overhead expenses by..." rather than "improve earnings." Clear expectations will enable the institution's board, senior management, and examiners to determine when the MRBA has been adequately addressed.

<sup>1</sup> [Statement of FDIC Board of Directors on the Development and Communication of Supervisory Recommendations](#)



**EXAMINATION CONCLUSIONS AND COMMENTS (ECC)**

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**Purpose**

The ECC page is the primary schedule examiners use to summarize examination findings, inform directors and senior management of undue risks, and guide corrective actions through presentation of supervisory recommendations when appropriate.

**Content**

Examiners should convey all significant examination findings on this page, including those relating to risk management, specialty areas, and, when material and relevant, Compliance/ Community Reinvestment Act (CRA) examinations.

The ECC page should include significant issues to be addressed by senior management—with board awareness—that do not meet the significant and immediate criteria of MRBA. However, when applicable, ECC comments should support issues raised on the MRBA schedule. Generally, the remediation of supervisory recommendations set forth on the ECC page can occur during the normal course of business. The ECC comments should be well supported by regulatory guidance or sound banking practices. Supervisory Recommendations on the ECC page should be associated with material practices that deviate from sound governance, internal controls, or risk management or consumer protection principles and noncompliance with laws and regulations, enforcement actions, or conditions imposed in writing. Supervisory recommendations may also be designed to encourage an institution to more fully take into account supervisory guidance in a manner that is commensurate with the institution's nature of business, size, and complexity for safety and soundness or consumer protection purposes. Supervisory recommendations related to and discussions concerning statements of policy, guidance, or interagency guidelines that are not included as appendices to FDIC Rules and Regulations should be summarized under an appropriate topical heading on the ECC page and should include a brief summary comment and reference to the Risk Management Assessment page for more details, if necessary. Recommendations should be relevant to the institution and not based on examiner preference or industry “best practices.”

Examiners must document management's response to each supervisory recommendation and include an assessment of each CAMELS component on this page.

In general, comments on the ECC page should not be duplicated on other ROE pages. However, some duplication is acceptable as certain types of examination issues can affect multiple UFIRS components.

**Comment Structure**

Comments should focus the reader's attention on the condition or practices that caused or otherwise led to the examiner's criticisms and supervisory recommendations. Comments should be sufficiently detailed to support all examination findings, ratings, and recommendations. Examiners are encouraged to use tables, charts, or graphs to illustrate a complex concept or to help readers understand examination findings. Generally, commentary for a stable 1-rated component should be concise, while commentary for 2- through 5-rated components should be progressively more detailed.

**Page Structure****Numerical Ratings**

***Uniform Financial Institutions Rating System*** – The top of the ECC page includes a grid to display the component and composite ratings for the current and two prior examinations. Previous examination dates should correspond to those noted elsewhere in the Report. Identify state examinations with "S" following the date, and designate other agency examinations with appropriate abbreviations. Composite ratings for the current and two prior specialty examinations, and the most recent Compliance and CRA examinations should be included at the bottom of the rating

grid. Footnote any examination dates that do not correspond with the current or previous risk management examination dates.

Composite rating definitions for risk management and specialty examinations should be included on the Composite Rating Definitions page. Definitions of component ratings are publicly available in the FDIC Statement of Policy on the Uniform Financial Institutions Rating System and can be provided to management upon request.

### **Overall Condition, and Risk Profile Summary**

The first narrative comments on this page should be a concise, high level, executive summary of the overall condition, risk profile, and business model of the bank. This comment should be concise; however, more extensive comments may be necessary for institutions with elevated risks or a complex business model. The focus should be on providing the reader with a concise description of the bank's major business lines, its overall risk profile and as needed, a description of applicable external factors such as its operating environment in the beginning of the report. Often, bulleted comments can provide brief, yet effective, summaries. Examiners should include brief assessments of specialty areas in this section, but avoid significant duplication of comments included in other sections of the ECC page. In all cases, the narrative should:

- State the approximate asset size of the institution (\$80 million, not \$80,604M)
- Provide an overview of the institution's business model (e.g. the primary products and/or services offered by the institution).
- Describe external factors, operating environment, major planned changes in management or mergers.
- Provide a concise analysis of the institution's key risks as it relates to the condition of the institution and an assessment of how management is managing the risks to the institution.
- Avoid using adjectives to describe component areas and instead, focus on how a component area is affected by the institution's risk management practices. For example, avoid statements such as "Liquidity is marginal" in favor of "Management's recent decision to use wholesale funding to support strong loan growth without adopting a contingency funding plan exposes the bank to elevated risk of not being able to secure cost-effective funding going forward."

### **Compliance with Enforcement Actions**

Examiners should include a summary of outstanding formal or informal enforcement actions on the ECC page. Detailed analysis of outstanding actions should be presented on the Compliance with Enforcement Actions page. Generally, the summary should be included after the Overall Condition and Risk Profile summary; however, placement of the comment depends on its significance in relation to other examination issues. Regardless of the type of action (formal or informal), the summary should discuss any unsafe or unsound practices or apparent violation of law that precipitated the enforcement action. Examiners should conclude comments by indicating if each practice, condition, or apparent violation was discontinued or still exists.

Only the FDIC's Board of Directors is authorized to make a finding of unsafe or unsound banking practices. Therefore, do not use the statutorily significant phrase "unsafe or unsound" in ROE comments. However, examiners should describe the facts that relate to unsafe and unsound conditions, and can use terms such as undesirable, unacceptable, or objectionable when commenting on unsafe and unsound practices and describe consequences to the institution of not addressing such practices.

**Prompt Corrective Action** - When applicable, present a summary of the Prompt Corrective Action (PCA) provisions included on the Compliance with Enforcement Actions page.

### **CAMELS Components**

Each CAMELS component must be addressed on the ECC page. Components should be addressed in order of risk, although some latitude is allowed to facilitate effective communication. Include the assigned rating after each component heading (for example, Capital - 1). The narrative for each component must include an assessment of pertinent factors and support the assigned rating. If applicable, recommendations and management responses should also be detailed. When recommendations are included, the rationale for the recommendation should be provided.

Refer to the Addendum to Section 1.1 (Basic Examination Concepts and Guidelines), of the RMS Risk Management Manual of Examination Policies for rating definitions and specific items to consider when evaluating each component. Note that “peer” is not included among the specific items to consider when evaluating each component. When relevant, peer data may be considered in conjunction with other pertinent evaluation factors. However, peer data should not be used in isolation in assigning ratings.

The length of comments and level of detail should be consistent with assigned ratings. Generally, comments should be brief for 1- and 2-rated components and progressively more detailed for 3-, 4-, and 5-rated components. When comments are critical, ensure the narrative describes the underlying conditions or practices that led to the criticism. As commentary expands, it is important to use effective organization and presentation techniques. Subheadings and bullet points are encouraged to improve readability, as are charts and graphs when appropriate. Generally, lengthy comments should begin with a concise summary of the major issues being covered.

## Violations of Law

If apparent violations of law, regulations, or non-conformance with interagency guidelines included as appendices to FDIC Rules and Regulations, are cited in the ROE, the ECC page must include, at a minimum, a brief summary comment and reference to the Violations of Laws and Regulations page. References to other report pages may also be necessary if related issues, such as internal control or policy weaknesses, are detailed elsewhere in the ROE. Based on the significance of the violations, examiners may place the comments under a subheading in the appropriate CAMELS or specialty examination sections, or in a separate section on the ECC page. The amount of detail provided on the ECC page should be based on the materiality of a violation, management’s response, and supervisory intentions regarding civil money penalties and enforcement actions.

## Disposition of Assets Classified Loss

When applicable, management's response to examination Loss classifications should be discussed within the Asset Quality segment of the ECC page. For example, "President Smith indicated he will charge off all assets classified Loss prior to filing the June 30, xxxx Call Report."

Examiners should not suggest management charge off a portion of loans classified Doubtful except when required by state law or in formal enforcement actions. When securities are adversely classified Doubtful or Loss, examiners should follow guidance contained in Section 3.3 (Securities and Derivatives), of the Manual. Other asset categories against which valuation allowances are not normally maintained require a judgment regarding a recommendation for charge-off.

## Specialty Examinations

*Concurrent specialty examinations embedded in the Risk Management ROE* - Specialty examination findings must be summarized in the ECC pages of the ROE. The placement and length of the comments should be commensurate with identified risks. When structuring comments, examiners should consider a department’s risk profile, control environment, and risk management practices. Generally, comments should:

- Summarize the examination scope and key findings,
- Detail material recommendations and violations,
- Include management's response (including the timing of promised corrective actions) to material recommendations and violations, and
- Identify bank officials with whom examination findings were discussed.

With the exception of the ITA page, there are no other mandatory specialty examination pages. However, examiners may include specialty examination pages in the ROE to communicate findings, or to facilitate forwarding of information to other regulators or serviced institutions.

Comments on the ECC page relating to RTA/MSD/GSD examinations should specifically state whether any apparent violations of laws or regulations were discovered. If apparent violations were discovered, but management disagrees, the apparent violation(s) should be cited and discussed in the ROE. If apparent violations were

discovered and management agrees the violation occurred, examiners can list the violations associated with the applicable specialty examination in the ROE or include a statement indicating a list of violations was left with management. In either case, an ECC comment must be included detailing management's commitment, or lack of commitment, to correct the violations cited at the examination.

Comments on the ECC page relating to IT examinations must summarize key ITA findings and assessments of the institution's cybersecurity preparedness and conformance with Appendix B to Part 364, Interagency Guidelines Establishing Information Security Standards (Security Guidelines). The length of the comment should vary based on the size and complexity of the institution and the significance of any weaknesses noted and should support the composite Uniform Rating System for Information Technology (USIRT) rating assigned. The comment should reference the ITA page when IT risk examinations are embedded in the Safety and Soundness examination. Significant findings from separate cover IT reports completed during the risk management examination cycle must also be summarized on the ECC page.

## **Bank Secrecy Act (BSA)**

Examiners must describe the adequacy of BSA and Office of Foreign Assets Control (OFAC) programs on the ECC page and factor their assessment into the Management component. The placement and length of comments should relate to the adequacy of the program and any outstanding regional guidance.

- Programs deemed satisfactory should be briefly discussed within a subsection of the Management component.
- Programs with moderate deficiencies should be discussed within a subsection under Management, with details of noted deficiencies and related recommendations included, as deemed appropriate, on the RMA or ECC page.
- Programs with significant deficiencies or violations of BSA related regulations should be presented, as deemed appropriate, in subsections under Management or as a separate section on the ECC page or MRBA page. Details of noted deficiencies and related recommendations should be included on the RMA or ECC pages.

***Concurrent specialty examinations submitted under separate cover*** (Information Technology (IT), Trust, Municipal/Government Securities Dealers (MSD/GSD), or Registered Transfer Agent (RTA)) - In some situations, it may be necessary for specialty examination reports to be completed separately from Risk Management examinations. In these rare cases, separate cover specialty examinations should be prepared consistent with specialty examination guidance. Separate cover specialty ROEs require the approval of the regional director or designee.

Specialty examination findings for separate cover reports should be summarized in the ECC section of the risk management ROE. The placement and length of specialty examination comments should be commensurate with the risk profile of the specialty area.

## **Meetings with Management and the Board of Directors**

If a meeting with the board of directors is held, the ECC page should include a concise description of the topics discussed and any related board responses and commitments. Specific management actions, commitments, or responses that are included in preceding comments need not be repeated. However, examiners should include enough detail to make the comment informative and to document commitments for corrective actions. The date of the meeting and a listing of attendees should be included. If a board meeting was not held, examiners should summarize the exit meeting held with senior management. This comment should precede the Board of Directors Reminder described below.

## **Board of Directors Reminder**

This comment should be under a separate heading and the last narrative item on the ECC page. The comment should remind the directorate of their responsibility to review the entire ROE and sign the Signatures of Directors/Trustees page.

## **Examiner's Signature and Reviewing Official's Signature and Title**

The examiner's signature (signatures if joint), and the reviewing official's signature and title should be the last items on the ECC page.

## COMPLIANCE WITH ENFORCEMENT ACTIONS

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### Purpose

This schedule presents facts relating to an institution's adherence to formal and informal administrative actions and to Prompt Corrective Actions. As noted below, examiners should address continuing conditions related to applications, notices, or other written requests on a separate schedule.

**Formal enforcement actions** are notices or orders issued by the FDIC against insured financial institutions and/or individuals. The purpose of formal actions is to correct noted safety and soundness deficiencies, ensure compliance with Federal and State banking laws, assess civil money penalties, and pursue removal or prohibition proceedings. Formal actions are legally enforceable and final orders are available to the public after issuance.

**Informal enforcement actions** are voluntary commitments made by an institution's board of directors. They are designed to correct noted safety and soundness deficiencies or ensure compliance with Federal and State laws. Informal actions are not legally enforceable and are not available to the public.

### When To Include This Schedule

Include this schedule when an institution has one of the following outstanding actions:

#### Formal Action

- Final Order pursuant to Section 8
- Capital Directive
- Section 39 Safety and Soundness Order
- Other formal administrative action of a state authority or other regulatory agency
- Continuing Condition

#### Informal Action

- Board Resolution
- Memorandum of Understanding
- Section 39 Safety and Soundness Compliance Plan
- Other informal administrative action of a state authority or other regulatory agency

#### Prompt Corrective Actions

When an institution is subject to Prompt Corrective Action (PCA), summarize the applicable provisions of the PCA and follow each provision with an examiner assessment.

#### Continuing Conditions

Create a separate schedule titled "Compliance with Ongoing Conditions" to discuss an institution's adherence to conditions imposed by the FDIC or other relevant banking agency in connection with an application, notice, or other request made in writing. Address continuing conditions, including any conditions or requirements imposed through orders approving deposit insurance, mergers, or other applications, as well as continuing conditions or requirements imposed through a non-objection to a change in bank control notice or other filing. Continuing conditions or requirements to be addressed may also be included in various agreements relating to an application, notice, or filing such as operating agreements, parent company agreements, capital and liquidity maintenance agreements, and passivity agreements. The schedule should follow the Compliance with Enforcement Actions page (if formal or informal actions are in place) or the ECC page.

**Page Structure**

Examiners should begin comments with a brief overview of the facts leading to the issuance of an action. (For example, "Based on deficiencies noted at the xx/xx/xx examination, ...") Comments should detail the type of action, effective date, and affected parties. At the first examination after the issuance of a formal or informal administrative action, the action should generally appear verbatim on this page. If the action is lengthy and management is agreeable, it may be paraphrased.

Use bold print, indentation, quotations or similar techniques to differentiate between action provisions and examiner assessments.

Each provision should be followed with an assessment of the adequacy of the steps taken by the institution to comply with each provision of the action. For example, an assessment of a new policy might say, "The updated Liquidity Policy appears to address the requirements of provision X." Examiners should not use conclusory statements of opinion such as, "The institution is in compliance/partial compliance/substantial compliance/noncompliance with this provision." Comments should also indicate whether time limits set forth in actions have been met.

At subsequent examinations, provisions may be paraphrased or summarized. Address only those points of the action that the institution has not complied with since the previous examination and requirements of a continuing nature. When all provisions have been satisfied, and the only remaining provisions are those of a continuing nature having no expiration date, remarks may be limited to a short paragraph concerning the continuing requirements of the action.

In all cases, carry forward a summary of the institution's adherence to any outstanding formal or informal actions to the ECC page.

**RISK MANAGEMENT ASSESSMENT**

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**Purpose**

The purpose of this schedule is to highlight deficiencies in risk management policies, procedures, and practices and to provide recommendations for corrective action, ideally before risk management practices impact the institution's condition.

**When To Include This Schedule**

Examiners should use the Risk Management Assessment (RMA) page to concisely detail supervisory recommendations about risk management deficiencies and corresponding management responses that are material enough to be included in the ROE, but not on the ECC page. Examiners should also use this schedule to discuss supervisory recommendations related to safety and soundness principles underlying statements of policy, guidance, or guidelines that are not directly incorporated into a regulation. When determining where to place comments (ECC vs. RMA), consider the materiality of an issue, the impact an issue has on CAMELS ratings, and how placement of a comment most effectively supports recommendations and ratings.

**General**

Examiners should answer each RMA question by responding: "Yes," "No," or "Generally, yes." Responses at most 1 and 2 rated institutions will likely be answered: "Yes", or "Generally, yes."

"Yes" answers do not require ROE comments.

"Generally, yes" answers, which may be appropriate for moderate weaknesses, require comment on the RMA page, but may not require ECC page comments. Related comments should be concise and address management's response.

Answers of "No" normally require ECC page comments and may even require MRBA, depending on the significance of the deficiency and urgency and seriousness of required corrective action. To the extent possible, examiners should not duplicate comments on the ECC and RMA pages; however, RMA page comments may be used to address less significant issues or to provide additional details about weaknesses that are addressed on the ECC page.

In some cases, coverage of related issues may be split between the ECC and RMA pages. For example, assume a bank's loan policy is inadequate for several significant reasons. In addition, a number of less significant policy related weaknesses are identified that alone would not justify considering the policy inadequate. In this scenario, an appropriate RMA Question No. 2 response may be:

No. As indicated on the Examination Conclusions and Comments page, underwriting and credit administration practices relating to acquisition and development lending are deficient. Additionally, management should strengthen the Loan Administration Policy by:

- Addressing minimum documentation requirements relating to home lending,
- Developing minimum liquidity and net worth requirements for unsecured borrowers, and
- Modifying accounts receivable lending guidance to be consistent with actual practices.

*President Smith agreed to modify the Loan Policy by the end of the year.*

Supervisory recommendations related to statements of policy and other regulatory guidance that are not included as appendices to FDIC Rules and Regulations are to be discussed under the appropriate Risk Management Question. For example, a recommendation regarding the institution's practices and policies being inconsistent with the safety and soundness principles outlined in the *Interagency Statement of Policy on the ALLL* would be addressed under Question 2, dealing with policies and practices for the credit

function; while a recommendation related to the *Joint Agency Policy Statement on Interest Rate Risk* would be covered in Question 3 dealing with policies and practices for asset/liability management. A description of the practice, policy, action, or inaction that demonstrates the weakness should be included along with the name and description of the relevant statements of policy, guidance or guideline. The comment should include management's response and their commitment for corrective action.

### **Risk Management Questions**

The list of items under each question is for illustrative purposes and is not all-inclusive. In responding to these questions, examiners should consider the institution's existing and projected business model and risk profile.

#### ***1) Are risk management processes adequate in relation to economic conditions and asset concentrations?***

Consider issues such as:

- Local economic conditions and trends (including real estate markets),
- Trade area demographics,
- Loan demand and diversification strategies,
- Industry or economic-sector concentrations, and
- Diversity and availability of funding sources.

The level of formality in risk management processes should be consistent with the existing and projected size and complexity of an institution's activities. For example, written policies relating to monitoring economic conditions may not be needed in a stable 1 or 2 rated community bank.

#### ***2) Are risk management policies and practices for the credit function adequate?***

Consider the adequacy of policies and practices relating to issues such as:

- Credit administration,
- Underwriting standards,
- Credit grading system,
- ALLL methodology,
- Real estate appraisals,
- Concentration limits and oversight,
- Internal and external loan review programs,
- Documentation standards,
- Lending authorities,
- Loan approval processes,
- Loan committee structures,
- Nonaccruals and chargeoffs,
- Environmental risk controls,
- Out-of-area lending,
- Loan purchases and participations,
- Subprime lending programs,
- Credit card lending programs, and
- Renewals and extensions.

Additional guidance regarding this area is included in Section 3.2 (Loans), of the Manual.

#### ***3) Are risk management policies and practices for asset/liability management and the investment function adequate?***

Consider the adequacy of policies and practices relating to issues such as:

- Asset/Liability management,



- Liquidity strategies,
- Investment strategies,
- Hedging strategies,
- How growth is funded,
- Investment authorities,
- Committee structures, and
- Outside advisory services.

Additional guidance regarding this area is included in Sections 3.3 (Securities and Derivatives), 6.1 (Liquidity and Funds Management), and 7.1 (Sensitivity to Market Risk), of the Manual.

4)

**4) *Are risk management processes adequate in relation to, and consistent with, the institution's business plan, competitive conditions, and proposed new activities or products?***

Consider the adequacy of policies and processes relating to issues such as:

- Strategic and capital planning,
- Management depth and succession,
- New or expanded activities or products,
- Competitive environment,
- Feasibility and budgeting analysis,
- Fidelity insurance coverage, and
- Consistency of present business plan and proposed new activities with that provided with the Application for Federal Deposit Insurance (de novo institutions).

**5) *Are internal controls, audit procedures, and compliance with laws and regulations adequate (includes compliance with the Bank Secrecy Act [BSA] and related regulations)?***

Consider the adequacy of practices, as well as policy coverage and implementation, relating to issues such as:

- Independence, scope, and frequency of internal/external audit programs;
- Internal control standards;
- Management information systems;
- Audit committee composition;
- Management's responses to previous regulatory and audit recommendations;
- Accounting issues/Call Report errors;
- Fidelity insurance coverage;
- Compliance with the Bank Secrecy Act and Financial Recordkeeping regulations; and
- Compliance with laws and regulations, including continuing conditions other than orders granting approval for deposit insurance (which should be covered on the Compliance with Enforcement Actions Page).

RMA page comments should only briefly address cited violations. Primary commentary regarding apparent violations should be included on the ECC and Violations of Laws and Regulations pages.

BSA and OFAC comments are not required on the RMA page if there are no concerns. However, moderate deficiencies or recommendations for program enhancements that do not require MRBA or ECC comments may be detailed on this page. (In all cases, scope comments for BSA and OFAC should be included on the Confidential - Supervisory Section page.)

**6) *Is board supervision adequate; and are controls over insider transactions, conflicts of interest, and parent/affiliate relationships acceptable?***

Consider issues such as:

- Ownership/Control of the institution;
- Quality and completeness of Board reporting;

- Committee structure adequacy to the extent not addressed in prior questions;
- Directorate attendance;
- Transactions with insiders, affiliates, holding companies, and parallel-owned banking organizations;
- Unusual or nontraditional activities conducted through affiliates;
- Policies and procedures regarding conflicts of interest and ethical conduct;
- Affiliate/subsidiary relationships;
- Compensation policies, procedures and practices including excessive compensation and appropriateness of director's fees; and
- Key man life insurance/deferred compensation arrangements.

**VIOLATIONS OF LAWS AND REGULATIONS**

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**Purpose**

Examiners use this page to communicate details regarding apparent violations of laws and regulations, or non-conformance with Interagency Guidelines that are incorporated into regulations as appendices to FDIC rules, such as the appendices to Parts 364 and 365 of the FDIC Rules and Regulations.

**General**

The ECC page must include a reference to this page whenever violations, or non-conformance are cited, and MRBA may be necessary depending upon the significance and prevalence of the infractions and whether they are repeat in nature. References to this page on other report pages may also be necessary if related issues, such as internal control or policy weaknesses, are detailed elsewhere in the ROE.

Because of possible administrative or judicial reviews, all violations must be described as "apparent violations."

Examiners should list violations in order of importance, with consideration given to the materiality of violations, adequacy of management's response, and supervisory intentions regarding civil money penalties and enforcement actions.

**Formatting Write-ups**

**Headings** - A descriptive heading should precede each scheduled violation or group of violations.

**Citation of Violation** - When scheduling apparent violations of laws or regulations:

- Refer to general regulations by part number (for example, Part 329);
- Refer to specific parts of regulations by section number (for example, Section 328.2 or Section 329.1(e));
- Quote or paraphrase the requirements of violated statutes; and
- Ensure all summarized statutes or regulations accurately reflect the key aspects of the statutes or regulations. For example, "Section 337.3(b) of the FDIC Rules and Regulations prohibits banks from making loans exceeding defined amounts to directors without prior board approval."

**Description of Violation** - Describe the specific actions or circumstances that caused an apparent violation. For example, "The \$3 million loan to Director Smith funded on 12/2/16 is in apparent violation of Section 337.3 (b) of the FDIC Rules and Regulations because it was extended without prior board approval." Lengthy descriptions of violations may be unnecessary, especially if details are included in other schedules. In such cases, include references to the other schedules.

**Management Response** - Comments should include:

- Management's explanation for violations and their commitments for corrective action, or lack thereof,
- The name and title of any officers or directors who provided explanations and commitments, and
- Details of any promises of restitution (when applicable).

**Director Approval** - To reflect director responsibility, include the names of directors who approved assets held in non-conformance with applicable State or Federal laws, regulations, or similar guidelines. While this is not necessary in all violation write-ups, it is essential when violations may result in civil money penalties. In such cases, show the date approval was granted and include the names of any dissenting directors. Follow this procedure even when an approval consisted merely of ratifying a group of loans identified only by numbers. Generally, also include director approval information when the apparent violation(s) involves insider transactions, whether or not civil money penalties are being recommended.

*Summary of Technical Violations* – Generally, when citing technical violations involving numerous accounts or credits, examiners may include lists of sample violations in the ROE. If sample lists are included, examiners should give complete lists to management and retain a copy in the workpapers. Refer to specialty examination guidance when citing apparent violations relating to specialty examinations.

### **Legal Lending Limit Violations**

Generally, courts have held that only the loan(s) that cause a borrower's debt to exceed the legal limit is illegal. Therefore, consider only the advance(s) that cause the excess over the legal limit a violation. However, the state law or practices regarding this matter should prevail.

### **Uncorrectable Vs. Repeat Violations**

After violations are first cited at an examination, refrain from citing the violations at subsequent examinations if they cannot be corrected. For example, violations of Regulation O prior approval requirements are not correctable and should not be cited at subsequent examinations. However, examiners should cite repeat violations (new infractions of previously cited violations), and violations that could have been corrected but were not.

### **Civil Money Penalties**

Examiners must not refer to the FDIC's ability to impose Civil Money Penalties (CMPs) except in the most serious circumstances. If institutions repeat or fail to correct serious violations, comments can indicate that violations may be subject to CMPs.

Examiners must determine if an insured depository institution should be considered for a CMP referral when significant violations of the BSA/AML Compliance Program have been cited.

When CMPs are being recommended, the home mailing addresses of all directors and any other individuals involved in the violation should be included in the Confidential-Supervisory Section.

### **Non-conformance With Interagency Guidelines**

List non-conformance with interagency guidelines that are incorporated into a regulation after cited violations under the subheading Non-conformance with Interagency Guidelines. An example of non-conformance with interagency guidelines would be when the institution did not meet one or more of the standards established in Appendix A or B of Part 364, or Appendix A of Part 365. Write-ups for non-conformance should follow the general format as violation write-ups.

**INFORMATION TECHNOLOGY AND OPERATIONS RISK ASSESSMENT (ITA)**

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**Purpose**

The purpose of the ITA page is to convey the URSIT ratings for embedded information and operations risk (IT) examinations and provide detailed comments that support each component rating.

Examiners must include comments on the Examination Conclusions and Comments (ECC) page that summarize key ITA findings, and assessments of the institution's cybersecurity preparedness and conformance with Appendix B to Part 364, Interagency Guidelines Establishing Information Security Standards (Security Guidelines). Significant findings from separate cover IT examination reports completed during the risk management examination cycle must also be summarized on the ECC page.

**Page Structure and Order**

The ITA is a mandatory page when IT examinations are embedded in the Safety and Soundness examination. The page should immediately follow the Violations of Laws and Regulations page. Detailed comments supporting assigned URSIT ratings and assessments of the institution's cybersecurity preparedness and conformance with Security Guidelines are required on the ITA page.

**Numerical Ratings**

The ITA page includes a grid at the top of the page to display the composite and component ratings for the current and two prior IT examinations.

**Supporting Comments**

Comments should be presented in order of importance and provide support for the conclusions and recommendations summarized on the ECC page. Use descriptive subheadings, bulleted lists, and other such devices to promote readability.

Comments should include:

- Assessment or condition statements for each component;
- Findings and, as needed, recommendations;
- Descriptions of the consequences of inaction, or benefit of corrective action, relating to each recommendation; and
- Management's response, name and title of respondent, and timeframe specified for corrective action.

If the institution incorporates a cybersecurity tool or framework (e.g., FFIEC Cybersecurity Assessment Tool or NIST Cybersecurity Framework) into its risk management process, examiners should detail the results of management's assessment. The details should be presented in conjunction with the examiner's review of the institution's overall information security risk assessment and can be included under the supporting comments for cybersecurity preparedness.

## FIDUCIARY ACTIVITIES ASSESSMENT (FAA)

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### Purpose

The purpose of the FAA page is to convey supporting comments for embedded trust examination findings that are summarized on the ECC page.

### When to Include

Examiners have the option to include an FAA page when additional information regarding embedded trust examination findings, recommendations, or management responses is necessary to support ECC page comments.

Supporting comments on an FAA page may relate to apparent violations, contingent liabilities, potential losses, estimated losses, or other issues subject to comment or criticism.

### Page Structure and Order

#### Numerical Ratings

The FAA page includes a grid at the top of the page to display the component and composite ratings for the current and two prior trust examinations. At a minimum, examiners must include composite trust ratings and a summary comment on the ECC page. However, if deemed appropriate, examiners may also include composite and component trust ratings on the FAA page. The definition of the assigned composite rating must be included on the Composite Rating Definitions page.

#### Supporting Comments

Examiners should prepare comments on an exception-only basis as much as possible. Comments should be presented in order of importance and provide support for the conclusions and recommendations summarized on the ECC page. Descriptive subheadings, bulleted lists, and other such devices should be used to promote readability.

**EXAMINATION DATA AND RATIOS (EDR)**

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**Purpose**

The EDR page includes various data that details trends in key financial components and supplements examination assessments of capital, asset quality, earnings, and liquidity. Examiners must include the EDR page in all examination reports.

**Summary of Items Subject To Adverse Classification**

Generally, classification information automatically pulls from other report schedules.

**Contingent Liabilities**

Only Category I contingent liabilities (liabilities that will result in an equivalent increase in bank assets if the contingencies convert to actual liabilities) are subject to adverse classification.

**Financial Performance and Condition Ratios**

The standard ratios included on this page are derived from examination results, Call Reports, and the UBPR. When Call Report data is used, ratio calculations are consistent with UBPR User's Guide definitions.

**Selection of Ratios**

Data in the Asset Quality section and the top portion of the Capital section<sup>2</sup> is based on results from current and prior examinations (if applicable). The left column of the bottom three Capital ratios<sup>3</sup> and the Earnings and Liquidity ratios should tie to the Examination as of Date of the current examination. The information in the adjacent three columns is user-defined. When selecting the period and type of information displayed in the adjacent columns (whether institution or peer), examiners should select the data that best supports examination conclusions.

Examiners can add one user-defined ratio to each section to further support examination findings. User-defined ratios for prior periods that are not readily available can be shown as NA and footnoted as Not Available, or manually calculated based on UBPR definitions.

*Note:* The Capital Category will need to be changed from "W-Well-Capitalized" if the bank is operating under a formal corrective action that contains a capital provision even if the capital ratios meet the requirements of the Well-Capitalized PCA category. (Change the category designation by overwriting the Capital Category cell in the automated examination tool.)

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<sup>2</sup> Tier 1 Capital/Average Total Assets, Common Equity Tier 1 Capital/Risk Weighted Assets, Tier 1 Capital/Risk-Weighted Assets, and Total Capital/Risk-Weighted Assets.

<sup>3</sup> Retained Earnings/Average Total Equity, Asset Growth Rate, and Cash Dividends/Net Income.

**COMPARATIVE STATEMENTS OF FINANCIAL CONDITION**

←

**Purpose**

This schedule presents a general snapshot of the institution's balance sheet. It is not intended for detailed financial analysis. Examiners should use the institution's Report of Condition, UBPR, and other sources for balance sheet analysis.

**General**

This schedule should conform to Call Report Instructions. If Call Report Instructions change, examiners may need to add new line items.

Show all asset categories net of specific and general valuation allowances, except Total Loans and Leases, which has a separate line item for general valuation allowances (the Allowance for Loan and Lease Losses).

**Dates**

**Left Column** - In the left column, place the financial information for the current Examination as of Date. Generally, this will be the most recent quarter-end available; however, month-end or another date may be more appropriate when circumstances dictate.

**Right Column** - The right column should usually detail information for the year-end prior to the Examination as of Date shown in the left column. However, when desired, substitute a different date, such as the Examination as of Date from the prior examination. If using a date other than the previous Examination as of Date, ensure the information follows Call Report guidelines.

At the first examination of a new institution, examiners may use the right column to display a projected balance sheet. If this information is not useful, leave the right column blank. In the case of a new institution, footnote the date the institution opened.

**Assets, Liabilities, and Equity Capital**

Ensure line items tie to Call Reports line items and footnote any unusual items. If an examination as-of date does not correspond to a quarter-end, line items must still conform to Call Report definitions.

**Derivatives and Off-Balance Sheet Items**

Derivatives and off-balance sheet Items should correspond to amounts listed on Call Report Schedule RC-L, (for banks that file Form 031 or 041), or Schedule RC-L and Schedule-SU, item 1 (for banks that file Form 051). If additional categories are needed, space is available below Other Off-Balance Sheet Items.

Include only Category I contingent liabilities (contingencies that give rise to accompanying increases in assets if the contingencies convert into actual liabilities). Do not include Category II contingent liabilities (those that are not expected to result in an increase in assets if converted to actual liabilities, such as pending litigation). Significant Category II contingent liabilities should be discussed on the ECC page under the financial aspect most significantly affected (for example, capital, management, earnings, or liquidity). If more than one financial aspect is impacted, comments relating to the other areas should briefly reference the contingencies and be cross-referenced as needed.

**Footnotes**

Use this section strictly for footnotes, not comments.



**LOAN AND LEASE FINANCING RECEIVABLES**

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**Purpose**

The purpose of this schedule is to provide an overview of the types of loans in an institution's loan portfolio and the volume of past-due and nonaccrual loans. This schedule is not intended for in-depth loan analysis. Examiners should review an institution's internal records, Call Reports, and UBPR to gain a thorough understanding of the composition and quality of a loan portfolio.

**General**

Complete this schedule according to Call Report Instructions.

**Percentages** - Round percentages to the nearest whole percent in the loan portfolio section and to the nearest hundredth percent in the past-due and nonaccrual section.

**Dates** - Examiners have the flexibility to use the same or different dates for the loan category and past-due/nonaccrual sections. The loan category date will usually be the Examination as of Date. The past-due/nonaccrual date should normally correspond with the Asset Review Date.

Past due and nonaccrual ratios may not tie to Call Report ratios if the Asset Review Date and the Examination as of Date are not the same. When the dates differ, ensure the dates used are clearly footnoted. Examiners may prepare the loan portfolio section as of the Asset Review Date if significant loan portfolio changes occurred after the Examination as of Date.

**Loan Portfolio Breakdown**

**All Other Loans and Leases** - This item includes overdrafts.

Gross loans and leases per the Call Report may actually be total loans and leases (gross loans and leases less unearned income). Call Report Instructions encourage but do not require institutions to report loan categories net of unearned income. Using total loans is acceptable when total and gross figures are not substantially different or unearned income is difficult to separate from loan categories.

**Past-due And Nonaccrual Loans And Leases**

Past-due and nonaccrual information should correspond to information in Call Report Schedule RC-N. Refer to the instructions for Schedule RC-N and the Call Report Glossary under "Nonaccrual Status."

The past-due columns are only for past due loans that are still accruing interest. The nonaccrual column may contain current and past-due loans.

**Total Past Due and Accruing** - This column is the sum of the previous two columns within each category.

**Percent of Category Columns** - The Percent of Category column calculates the ratio of past-due and accruing loans to the respective loan category. The Nonaccrual Percent of Category column calculates the ratio of nonaccrual loans to the respective loan category. (The totals in these two columns are not the sum of the ratios above the totals. The column totals are the Total Past Due and Accruing and the Nonaccrual dollar amounts expressed as a percent of gross loans and leases. The total Percent of Category ratio plus the total Nonaccrual Percent of Category ratio equals the Past Due and Nonaccrual Loans and Leases/Gross Loans and Leases ratio shown on the Examination Data and Ratios Page.) The percent of categories columns should not add to 100 percent unless the entire loan portfolio is past-due or on nonaccrual.

**Restructured Loans and Leases**

**Memorandum: Restructured Loans and Leases** - Include restructured loans here only if they are past due and accruing or on nonaccrual. These restructured loans are included in the above past-due and nonaccrual totals. Footnote restructured loans that are not past due and accruing or on nonaccrual.

Restructured loans, also known as troubled debt restructurings, are described in ASC Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors (formerly FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as amended by FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan"). Such loan restructurings may include, but are not limited to, reductions in principal or accrued interest, reductions in interest rates, and extensions of the maturity date because of deterioration in the borrower's financial position.

The following loans are not considered troubled debt restructurings:

- A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk,
- A loan that was a troubled debt restructuring, which had, subsequent to its restructuring, been assumed by a financially sound, unrelated third party, and
- A loan to purchasers of ORE which, to facilitate disposal, is granted at contract rates lower than market rates for loans of similar risk.

*References:*

- ASC Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors
- Call Report Instruction Glossary under Troubled Debt Restructurings
- Interagency Supervisory Guidance Addressing Certain Issues Related to Troubled Debt Restructurings (FIL-50-2013)

**Footnote**

Use this area to clarify items in the above sections. Do not use it to detail loan categories. A continuation page may be used if it is necessary to break down loan categories (such as, construction, commercial real estate, 1- to 4-family residential).

**RECAPITULATION OF SECURITIES**

←

**Purpose**

The purpose of this schedule is to analyze the general composition of a bank's investment portfolio, as well as any appreciation or depreciation in securities. Review the institution's internal records, Call Reports, and UBPR to gain a thorough understanding of the composition and quality of the investment portfolio.

**General**

Examiners should complete this schedule in accordance with Call Report Instructions-Schedule RC-B and the Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities.

*Rounding* - Round percentages to the nearest hundredth of a percent.

*Trading Account Assets* - Do not include trading account assets, other than as a footnote.

**Sub-investment Quality/Investment Quality**

This schedule allows examiners to detail investment and sub-investment quality securities for States and Political Subdivisions, Mortgage-backed Securities, Other Debt Securities, and Equity Securities. When applicable, schedule sub-investment quality securities immediately below the appropriate line item. For instance, if an institution has a sub-investment quality other debt security (other domestic debt), add a line item titled Sub-investment Quality Other Domestic Debt Securities directly below Other Domestic Debt Securities. The manually created Sub-investment line items will not appear unless a sub-investment quality security exists.

**Fair Value And Estimated Fair Value**

Fair Value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants in the principal, or most advantageous, market of the asset or liability at the measurement date. The value is often referred to as an "exit" price.

An orderly transaction is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities. It is not a forced liquidation or distressed sale.

If using other than quarter-end statements and it is impractical to obtain the fair value for some securities, include the amortized cost of those securities in the Fair Value column. For each line item, footnote the dollar amount of amortized costs included in the Fair Value column.

**Asset-backed Securities**

For the purpose of this schedule, asset-backed securities are backed by assets other than 1- to 4-family residential properties. For example, securities backed by credit card receivables, home equity lines, automobile loans, other consumer loans or commercial and industrial loans. Footnote, if appropriate, the type of assets securitized if other than those previously listed.

*References:*

- Call Report Instructions for Schedule RC-B
- Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities
- Manual Section 3.3, Securities and Derivatives
- Capital Markets Handbook
- Call Report Glossary (particularly, Coupon Stripping, Treasury Receipts, and STRIPS; Marketable Equity Securities; Participation in Pools of Securities; and Trading Accounts)

**ITEMS SUBJECT TO ADVERSE CLASSIFICATION**

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**Purpose**

The purpose of this schedule is to detail adversely classified items and when necessary communicate the rationale for adverse classifications via write-ups.

**General**

The page heading includes the interagency definitions of Substandard, Doubtful, and Loss.

All types of assets are subject to adverse classification.

**Asset Classification Write-Ups**

Asset classification write-ups are prepared to support the examiner's conclusions and recommendations to the Board of Directors, senior management, and regulatory authorities (including support for enforcement actions). Write-ups may not be necessary when the Asset Quality (AQ) component is rated 1 or 2. However, when AQ is rated 3 or worse, examiners are to prepare a sufficient number of write-ups to explain individual asset classifications, highlight underwriting deficiencies, and support examination recommendations and ratings.

Examiners should structure their write-ups to present information most effectively. For example, full scope write-ups, addressing the elements discussed under the Loan Write-Ups heading below, may be completed for loans over a certain size or to support specific conclusions or recommendations detailed on the ECC or RMA pages. Less comprehensive write-ups, or write-ups that only include a bulleted list of facts, may be completed for less complex credits. Examiners may also include lists of individual loans, or group homogeneous loans together, if appropriate. The examiner-in-charge has discretion as to the level of detail necessary to support conclusions and satisfactorily convey examination findings.

Regardless of the Asset Quality rating, examiners should consider including loan write-ups when any of the following circumstances are present:

- Significant weaknesses or adverse trends in credit underwriting or administration policies or practices,
- Material Loss classifications,
- Management disagrees with one or more classifications,
- Directors or management are not adequately aware of the impact of significant weaknesses in credit policies, practices, or conditions,
- Adversely classified assets involve institution insiders, or
- Internal credit grading systems are deficient.

**Report Presentation****General**

- In all cases, the dollar amount of adverse classifications must be included in the table at the top of the Examination Data and Ratios (EDR) page.
- If adverse classification write-ups are not prepared, examiners may list individual assets and groups of homogeneous assets on the Items Subject to Adverse Classification page.
- Regardless of ROE presentation, a detailed list of classifications should be left with management before the end of the examination. In this case, a copy of the list, signed by an executive officer (signifying acknowledgement of receipt of the list), should be retained in the workpapers for follow-up at the next examination.

- If classified assets are grouped together, include a comment as to the number of assets and basis for classification. For example, "32 Consumer Installment Loans adversely classified based on the Uniform Retail Credit Classification and Account Management Policy."
- The order of adversely classified asset categories should follow the table at the top of the EDR page. Use appropriate subheadings, alphabetize assets within categories, and subtotal each category containing adversely classified items.

## Loan Write-ups

When full-scope loan write-ups are prepared, comments should address pertinent factors affecting a classified asset. To the extent necessary, write-ups should address the following elements:

**Identification** - Indicate the name and occupation or type of business of the borrower. In the case of business loans, identify the business structure (corporation, partnership, sole proprietorship, etc.). Identify signers, cosigners, endorsers, and guarantors.

**Description** - Concisely describe the make-up of the debt as to the loan type, original and current amounts, and terms. Briefly describe the loan's general history, purpose, and source of repayment.

**Collateral** - Describe and evaluate any collateral, including its condition and/or marketability. When relevant, identify the appraiser. Also, state if the appraisal or estimate of value is independent or in-house.

**Financial Data** - Present key balance sheet and income information of the borrower and guarantors. The amount of financial information included in the write up should coincide with its relevance to the classification.

**Summarization of the Problem** - Explicitly point out the reasons for the adverse classification. Where portions of the line are accorded different classifications or are not subject to adverse classification, state the reasons for the split classifications.

**Management's Intentions** - Describe management's intention with the debt/borrower. Include any corrective actions contemplated by management, and identify the bank manager who committed to the actions.

**Responsibility** - Immediately following each loan write-up, identify the originating officer, servicing officer, and the examiner who reviewed the loan.

Consider the following when preparing write-ups:

- The format of write-ups within each asset category should be consistent in presentation, style, and appearance.
- Be concise, but do not omit pertinent information. Assess only relevant factors.
- Write informatively and factually. Do not include extraneous information that may overshadow important weaknesses.
- Round to the nearest thousand (with 000 omitted) in both the heading and adverse classification. In narrative comments, round dollar amounts to the nearest dollar (for example, \$24,985) or to the nearest thousand (for example, \$25M). Note: Round all dollar amounts in narrative ROE comments the same.
- When participation loans are adversely classified, list each participant and the participant's corresponding ownership percentage (whether or not originated by the institution). This requirement does not apply to Shared National Credits.
- When applicable, discuss contingent liabilities with the related credit relationship. However, do not extend adversely classified contingent liabilities with classified credits. Adversely classified contingent liabilities should be listed under the subheading Contingent Liabilities.
- When applicable, include overdraft amounts in outstanding debt recaps and discuss details on material or chronic overdrafts of borrowers with adversely classified loans in the same general comment.
- If an adversely classified asset has been partially charged off prior to the asset review date, note the date and amount of the charge-off.
- If an asset was adversely classified at prior examinations, indicate the number of times the asset was previously classified.

- If a previously classified and written up asset is again listed for classification, an abbreviated narrative, or a simple listing of name and amount, may be sufficient, if all of the following conditions are met:
  - The fundamental deficiencies have not materially changed,
  - Management agrees with the adverse classification,
  - Management and the board are sufficiently familiar with the deficiencies, and
  - Management and the board are taking feasible steps to improve or collect the asset.
- Indicate whether the loan is identified on the institution's internal watch list. If internally identified, indicate the internal rating.
- Indicate the past-due (30 days or more) or nonaccrual status of an asset. Occasionally, it may be pertinent to disclose delinquencies of less than 30 days.
- Indicate whether a loan had numerous extensions or rewrites.

It may not be necessary to address credit factors that do not have a significant bearing on a classification. For example, it may be unnecessary to identify the interest rate on a loan that is delinquent because a borrower went out of business and is no longer making payments. However, examiners may need to identify the interest rate on a variable rate loan that is chronically delinquent if the rate is about to increase and further strain the borrower's repayment ability. Additionally, it may be unnecessary to include numerous details on several small loans if a majority of a borrower's debt is centered in one or more large loans. For example, if a borrower has six loans totaling \$1 million and the current balance of one of the loans is \$950,000, the remaining five loans might be grouped together and described as, "Five related loans totaling \$50,000 originated in 2005-2010. Debts classified Substandard due to the troubled financial condition of the borrower and weak overall collateral protection." (Do not group small loans together if detailed descriptions of the credits would provide better support for other examination comments or recommendations.)

### **Miscellaneous**

- When adversely classified loans or other assets involve alleged fraud, embezzlement, or other dishonest conduct, state the facts that support the adverse classification. Do not discuss any possible criminal intent or conduct.
- Clearly distinguish the adversely classified assets of consolidated subsidiaries from institution-only classified assets.

**ITEMS LISTED FOR SPECIAL MENTION**

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**Purpose**

The purpose of this schedule is to detail assets listed for Special Mention and to communicate the rationale for the criticism.

**General**

The page heading includes the definition for Special Mention items.

Do not include smaller items unless they are part of a large grouping listed for related reasons.

**Write-Ups**

Each item listed for Special Mention should be supported by a write-up. However, items that exhibit similar deficient characteristics may be grouped together under a single write-up. The narrative, which generally need not be lengthy, should focus on weaknesses in management's administration, documentation, servicing, and/or collection activities, and on how these deficiencies can reasonably be expected to lead to increased credit risk if not remedied.

**ANALYSIS OF LOANS SUBJECT TO ADVERSE CLASSIFICATION**

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**Purpose**

The purpose of this schedule is to provide insight regarding the migration of classified loans from one examination to the next. From the analysis, the examiner will be better able to cite specific areas of change and the causes of these changes. In particular, the schedule may illustrate deterioration in the loan portfolio through the migration of loans previously classified Substandard to more severe classification categories.

**When To Complete**

- When institutions have marginal or unsatisfactory loan quality.
- When the volume or composition of adversely classified loans changed significantly from the previous examination.

**General**

Classification totals from the previous FDIC examination should normally be the starting point for the schedule. The FDIC may not always have access to state or other regulatory examination classification workpapers, which makes it difficult to use non-FDIC examinations as the starting point. However, when possible, analyze changes from a previous non-FDIC examination.

Generally, do not include adversely classified consumer loans and overdrafts. If overdrafts or consumer loans are included, they should be footnoted. Examiners also have discretion to exclude other small dollar loan balances from the schedule. Examiners should footnote amounts that are excluded.

Reductions pertain only to loans adversely classified at the previous examination.

**Additional Line Items**

Examiners may add line items when necessary. For example, other line items under Additions may include Previously Classified ORE where disposition did not originally meet the criteria for consummation of a sale (under ASC Subtopic 360-20, Property, Plant, and Equipment – Real Estate Sales (formerly FASB Statement No. 66, Accounting for Sales of Real Estate)), but now, subsequent to the transfer of the ORE, meets those requirements.

**Payments vs. Recoveries**

Nominal recoveries on loans charged off since the previous examination may be handled by: (a) including recoveries in Payments and deducting them from the line item Charged-Off, or (b) making no adjustment. However, when recoveries are significant, examiners should add a line item called Recoveries rather than include recoveries in the line item Payments. The amount included in the line item Recoveries would also be deducted from the line item Charged-Off.



**Further Advances - Loans Not Adversely Classified Previously**

Circumstances when this line item may be used include:

- Advances (since the previous examination) on a loan existing at the previous examination, and
- A new loan is granted to borrowers who were indebted to the institution at the previous examination and whose loans were not adversely classified at that time.

For practical purposes, do not research the payment and advance history on a loan that was on the bank's books at the last examination and not adversely classified previously. The amount listed in Further Advances - Loans Not Adversely Classified Previously should be the difference between the current balance and the previous examination balance (assuming the current balance is greater than the previous examination balance).

**Further Advances - Loans Adversely Classified Previously**

Circumstances when this line item may be used include:

- Advances (since the previous examination) on an adversely classified loan existing at the previous examination, and
- A new loan granted to borrowers who were adversely classified at the previous examination.

**Credits Newly Extended**

Include loans to borrowers who were not indebted to the institution at the previous examination.

*Note:* The aforementioned examples are not all-inclusive.

**ANALYSIS OF OTHER REAL ESTATE SUBJECT TO ADVERSE CLASSIFICATION**

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**Purpose**

The purpose of this schedule is to provide analysis of adverse ORE classifications from one examination to the next. From the analysis, examiners will be better able to cite specific areas of change and the causes of the changes. In particular, the schedule may illustrate deterioration in the ORE portfolio through the migration of ORE classified Substandard to more severe classification categories.

**When To Complete**

Examiners should consider completing this schedule if the volume of ORE is material or the composition of adversely classified ORE changed significantly since the previous examination.

**General**

Generally, the previous FDIC examination should be the starting point for preparing the schedule. The FDIC does not always have access to state or other regulatory examination workpapers, which makes it difficult to use non-FDIC examinations as the starting point. However, if it is possible to analyze changes from the previous non-FDIC examination, examiners may do so.

This schedule is designed to illustrate changes in adverse ORE classifications since the previous FDIC examination. Therefore, only include activity for ORE that was on the books at the last examination and ORE assets on the books at the current examination. (Do not schedule assets that both transferred into and transferred out of ORE between examinations.) If significant activity in the ORE account occurred between examinations, examiners should evaluate the reasons why assets transferred in and how they transferred out (with or without internal financing). Narrative comments may suffice to address this activity. For example, assume the following:

Book value at previous examination: \$ 5MM  
Book value at current examination: \$ 3MM  
Book value of ORE acquired and sold between examinations: \$12MM

In situations such as this, a separate schedule may be completed for the acquisition and sale of the \$12MM. (This schedule may aid in analyzing management practices, asset quality, and loss histories.)

Examiners have the flexibility to exclude some ORE parcels. (That is, when numerous smaller parcels represent only a small portion of the total volume of ORE.) Footnote the schedule to indicate what is excluded.

**Additional Line Items**

Add line items when necessary.

Examples of other possible line items under Reductions:

- To Premises
- Sales for Cash
- Sales to Insiders
- Now Adversely Classified Loan (This line item may be used when internally financed sales of ORE, which did not originally meet ASC Subtopic 360-20 requirements, now meets those requirements.)
- Examples of other possible line items under Additions:

- Capitalized Improvements (This line item may be used when capitalized improvements are substantial as a whole or to a particular parcel. Otherwise, one of the Further Advances line items may be used.)
- Formerly Premises
- Loans to Facilitate the Sale of ORE (sales of ORE that do not meet the criteria for the consummation of a sale under ASC Subtopic 360-20). Use this line item when a significant volume of sales has occurred. Otherwise, sales can go under ORE from Credits Newly Extended.

*Note:* Reductions pertain only to ORE adversely classified at the previous examination.

**Charged-off**

This line item may include losses on the sale of ORE, or write-downs on existing ORE, that resulted from re-evaluations or new appraisals.

**Not Adversely Classified Previously**

This line item may include amounts representing both loans and ORE at the previous examination.

**ORE From Credits Newly Extended**

This line item may include loans to facilitate ORE sales that do not meet down-payment requirements (that is, loans reported as ORE for Call Report purposes). Additionally, this item may include loans extended since the previous examination that are now adversely classified ORE.

*Note:* The aforementioned examples are not all-inclusive.

**ASSETS WITH CREDIT DATA OR COLLATERAL DOCUMENTATION  
EXCEPTIONS**

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**Purpose**

The purpose of this schedule is to support criticisms of excessive documentation exceptions and highlight specific weaknesses, such as numerous exceptions involving outdated financial information.

**When To Include**

This schedule may be included for support when documentation exceptions are excessive and comments on the MRBA page, ECC page or RMA page are appropriate. Do not include this schedule in the Report when the number of exceptions is not deemed excessive. Instead, leave a detailed list with management.

In certain circumstances, MRBA, ECC or RMA page comments may be appropriate if excessive deficiencies were outstanding when the examination commenced, but were substantially corrected during the examination and this schedule is not included in the Report.

**General**

During the examination, examiners should provide management with a list of documentation deficiencies on specific assets. This procedure is intended to expedite early correction of the deficiencies. Generally, deficiencies corrected during the examination are not included in this ROE schedule. However, examiners may include corrected deficiencies (clearly noted as having been corrected during the examination), to demonstrate reactive, rather than proactive, management practices.

Examiners have the flexibility to add line items in the heading to more accurately describe documentation exceptions encountered at the institution. Descriptive headings may include but are not limited to:

- 1 - Appraisal,
- 2 - Title Search or Legal Opinion,
- 3 - Borrowing Authorization,
- 4 - Recordation,
- 5 - Insurance,
- 6 - Collateral Assignment,
- 7 - Financial Statement,
- 8 - Inadequate Income/Cash Flow Statement,
- 9 - Livestock Inspection, and
- 10-Crop Inspection.

Include the date of a borrower's financial statement in the Date of Most Recent Financial Statement column only when financial statements are stale or otherwise deficient. Enter "None" when credit files contain no financial statements.

When documentation deficiencies are listed on adversely classified assets, cross-reference the appropriate ROE page.

Use this schedule to detail loan documentation deficiencies, as well as deficiencies in other assets/items (for example, ORE, securities, and letters of credit). Use subheadings to segregate categories and list exceptions in alphabetical order by the borrower's name within each subheading.

## CONCENTRATIONS

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### Purpose

The purpose of this schedule is to identify asset and liability concentrations and evaluate the institution's related risk management practices for certain concentrations.

This page should summarize *specific* asset and funding concentrations, their economic vulnerabilities, risk management practices, and management's plans relating to each concentration when such concentrations are particularly large.

Examiners should assess *overall* concentration-management practices and any recommendations relating to asset concentrations under Question 1 on the Risk Management Assessment (RMA) page. Include assessments of *overall* risk management practices and any recommendations relating to funding concentrations under Question 3 on the RMA page. If the RMA page is not included in the Report of Examination (ROE), include assessments on the Examiner Conclusions and Comments (ECC) page. Material recommendations and management responses should always be summarized on the MRBA or ECC page. Concentrations not meeting thresholds set forth in these instructions may also be included and analyzed in the ROE at the discretion of the Examiner-in-Charge to the extent the analysis supports material examination findings.

### When to Include

Examiners must include this schedule to highlight asset or liability concentrations and to communicate the examiner's analysis of the potential risks for concentrations that exceed certain levels described below. Asset concentrations relate to groups of assets that share similar risk characteristics. An institution's asset quality, earnings, or capital can be disproportionately affected by a single economic event if the institution holds significant asset concentrations. On the liability side, a funding concentration exists when an institution depends on one, or few, sources for a disproportionate share of its funding. The primary risk of a funding concentration is that an institution may have to replace those sources quickly at unfavorable terms. This risk may become more pronounced if the bank's condition, or the condition of the party providing the funds, has deteriorated.

List concentrations in order of importance (concentrations with higher risks should be listed first). When capital is low enough to make a concentration by a percentage of capital meaningless, use percentage of assets as a guideline for the calculation (generally two percent of total assets (TA)).

### Concentration Categories Requiring Listing

Asset and funding concentrations that meet or exceed the category thresholds below must be listed on the Concentrations page. As a general rule, asset concentrations for loan-related assets should be listed by category according to their aggregate total as a percentage of total capital (TC)<sup>4</sup>. Further, asset concentrations for non loan-related assets should be listed by category according to their aggregate total as a percentage of tier 1 capital<sup>5</sup>.

- 1) Asset concentrations representing 25 percent or more of TC (for loans) or tier 1 capital (for non-loans) by:
  - Individual borrower,
  - Small, interrelated group of individuals,
  - Single repayment source with normal credit risk or greater, or
  - Individual project.

Concentrations representing less than 25 percent of TC or tier 1 capital may be listed if elevated risk is evident or inclusion supports material examination findings.

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<sup>4</sup> "Total Capital" equals total risk-based capital as reported in the Consolidated Reports of Condition and Income (FFIEC 031 and 041), Schedule RC-R-Regulatory Capital, line 21.

<sup>5</sup> "Tier 1 capital" as reported in the Consolidated Reports of Condition and Income (FFIEC 031 and 041), Schedule RC-R-Regulatory Capital, line 11.

- 2) Concentrations representing 100 percent or more of TC (for loans) or tier 1 capital (for non-loans) by:
- Industry,
  - Product line<sup>6</sup>,
  - Type of collateral, or
  - Short-term obligations of one financial institution or affiliated group<sup>7</sup>.

- 3) Funding concentrations representing 10 percent or more of TA by a single funding source.

Funding concentrations representing less than 10 percent of TA may be listed if elevated risk is evident or inclusion supports material examination findings.

- 4) Potentially volatile funding sources that, when combined, represent 25 percent or more of TA. These sources may include brokered, large<sup>8</sup>, high-rate<sup>9</sup>, uninsured, and Internet-listing-service deposits, other potentially volatile deposits, Federal funds purchased, or borrowings. For example, if brokered deposits and uninsured deposits each represent 15 percent of TA, the combined 30 percent concentration should be included on this page. Any unique risks or controls relating to the various funding sources should be discussed separately within the write-up.

## **U.S. Government Securities**

Securities issued by the U.S. Treasury, U.S. Government agencies and corporations, and other obligations either backed by the full faith and credit of or fully guaranteed by the U.S. Government (hereafter referred to as "U.S. Government securities") are considered risk-free from a credit risk standpoint. Therefore, these securities and other assets collateralized by them should generally not be scheduled as concentrations, provided the existence of the collateral has been verified. However, examiners may exercise judgment in scheduling concentrations of U.S. Government securities if the instruments could potentially impact an institution's financial condition, particularly through market risk exposure. For example, an examiner may list a concentration in U.S. Government securities (such as zero coupon bonds) that present outsized market risk and potential depreciation in a changing interest rate environment. Finally, concentrations for other U.S. Government-related securities that are not in the zero percent risk-weighted category for regulatory capital purposes may be scheduled at examiner discretion.

## **Other Considerations**

Concentrations are not inherently problematic and should not be automatically criticized. However, concentrations add a dimension of risk that management must consider when formulating strategic plans and risk management policies. Management's ability to diversify the institution's balance sheet may be limited by geographic or economic factors. In other instances, management may choose a specific business model or product line that results in concentrations. When management cannot or does not achieve reasonable diversification, adequate risk management programs often require increased oversight, strong credit and liquidity management practices, appropriate management information systems and reporting, and possibly higher capital levels. Furthermore, management should also apply the sound risk management standards established in various agency issuances, including the Interagency Guidelines Establishing Standards for Safety and Soundness (Appendix A to Part 364 of the FDIC's Rules and Regulations), the Interagency Guidelines for Real Estate Lending Policies (Appendix A to

<sup>6</sup> Product lines are common programs used by an institution that target specialty lending within a broad loan category, such as leveraged financing, accounts receivable, home equity, row crops, farm equipment, and subprime.

<sup>7</sup> For the purposes of concentration identification, short-term obligations represent Federal funds sold with a maturity of one day or less or Federal funds sold under a continuing contract, and resale agreements that have an original maturity of one business day (or is under a continuing contract) and are in immediately available funds in domestic offices.

<sup>8</sup> Aggregate deposits of a customer representing 2 percent or more of total deposits.

<sup>9</sup> Generally, "high rate" refers to deposits receiving 75 basis points above the national average for similar deposits. Refer to <http://www.fdic.gov/regulations/resources/rates/index.html> and FIL 69-2009 for additional information.

Subpart A of Part 365 of the FDIC's Rules and Regulations), and the Joint Guidance on Concentration in Commercial Real Estate Lending, Sound Risk Management Practices (Financial Institution Letter 104-2006), in a manner appropriate to the size and complexity of the institution's operations.

In determining whether, and how, to list a concentration, remember that concentrations involve similar risk factors (for example, industry type, source of revenue, management, or collateral support). If a weakness develops in a key risk factor, it can adversely affect the concentrated assets or liabilities and the institution's earnings and capital. Nevertheless, ROE treatment of concentrations is flexible and requires sound examiner judgment. For example, if an institution's loan distribution is concentrated in one general class of borrower (such as consumer loans or agricultural loans), or is limited by the types of borrowers that dominate an institution's trade area, it may be appropriate to simply identify the concentrations for informational purposes and focus assessments on the adequacy of related underwriting, credit administration, monitoring, or other risk management practices.

***Out-of-Territory Concentrations*** - When properly managed and monitored, out-of-territory lending can diversify an institution's total loan portfolio. Historically, these obligations were often regarded as a diversified class of borrower and not listed as concentrations. However, if out-of-territory credits are concentrated in a particular loan type or geographic area, these exposures could pose increased concentration risk. When examiners identify out-of-territory concentrations, they should document concentration levels, (for example, by loan type or geographic location), and evaluate common risk factors, such as exposure to depressed local economies, or elevated credit administration requirements<sup>10</sup>. At a minimum, out-of-territory concentrations should generally be listed as concentrations for informational purposes, and should include brief assessments of common risk factors and risk management practices. Examiners should complete a write-up if the concentrated assets appear vulnerable to one or more risk factors.

***Purchased Loans and Participation Loans*** - Similar to and often associated with, out-of-territory loans, a significant volume of purchased or participated loans may result in concentration risks. If the loans are centered in a particular loan type or geographic location, purchased through the same loan broker, or originated from the same financial institution, examiners should list and evaluate the loans as concentrations. Additionally, regardless of the type or location of the loans, examiners should consider the unique risks associated with managing purchased or participated credits and should assess the adequacy of management's pre-purchase analysis and on-going credit administration practices.

***Correspondent Bank Concentrations*** - A financial institution's relationship with a correspondent may result in credit (asset) or funding (liability) concentrations. A credit concentration exists when an institution advances or commits a significant volume of funds to a correspondent. A funding concentration exists when an institution depends on one or a few correspondents for a disproportionate share of its total funding. While correspondent concentrations often meet legitimate business needs, the concentrations represent diversification risks that management should consider when formulating strategic plans and internal risk limits. Such relationships warrant robust risk management practices, particularly when aggregated with other similarly sized funding concentrations. At a minimum, list significant due-to and due-from accounts. Refer to Federal Reserve Board Regulation F, Part 206-Limitations on Interbank Liabilities and the Correspondent Concentration Risks Interagency Guidance for additional details.

***Mutual Funds*** - Despite their inherent diversification, include an investment in a single mutual fund whose book value represents 25 percent or more of tier 1 capital (including those investing exclusively in U.S. Government securities).

***Non-Agency Securitization Exposures in Structured Credit Products*** - Non-agency structured credit products, such as private label mortgage backed securities, asset backed securities, collateralized debt obligations, and collateralized loan obligations, can contain complex structures and characteristics that make their performance more volatile and susceptible to losses in adverse market or economic environments. Examiners should include these

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<sup>10</sup> Evaluate management's ability to effectively administer the loans. In addition to evaluating standard underwriting, documentation, appraisal, monitoring standards and practices, etc., consider the additional requirements for obtaining timely information from geographically dispersed locations.

investments as concentrations when the aggregate book or fair value (whichever is greater) of an investment type represents 25 percent or more of tier 1 capital or when the aggregate book or fair value (whichever is greater) of all such investment types exceeds 100 percent of tier 1 capital.

***Extensions Of Credit To A Foreign Government*** - Aggregate as a class of borrower, extensions of credit to a foreign government, its agencies, and majority-owned or controlled entities. If the extensions of credit are equal to or in excess of the 25 percent guideline, schedule them as a concentration. Loans to private sector enterprises may also be included with public sector borrowings if an interrelationship exists in the form of government guarantees, moral commitments, significant subsidies, or other pertinent factors pointing toward reliance on public sector support. Include amounts where sizable extensions of credit to related private entities equal or exceed the 25 percent guidelines. The aforementioned procedures are intended to facilitate reporting of concentrations involving borrowers evidencing commonality of commercial credit risk. Follow outstanding instructions when handling transfer risk or country risk, where all public and private sector credits within a country are aggregated and related to the institution's capital structure. The International Banking section of the Manual and the instructions for the International section of the Bank of Anytown contain additional guidelines regarding concentrations in the area of credit to foreign governments and their entities.

### **Concentration Written Analysis**

Industry and product line loan concentrations are listed on the Concentrations page at 100 percent of TC; however, a written analysis is triggered when that concentration is 300 percent or more of TC. Examiners are to provide a written analysis on the Concentrations page summarizing material factors regarding each asset or funding concentration that exceed the following thresholds:

- Individual borrower concentrations (including small interrelated groups of individuals, a single repayment source or an individual project) of 25 percent or more of TC.
- Industry, product line, or collateral type loan concentrations of 300 percent or more of TC. For example, written analysis would be required for a concentration that includes non-owner occupied commercial real estate (CRE) loans; owner occupied CRE loans with similar risk characteristics; agricultural real estate loans; agricultural production loans (crop loans); livestock loans; leveraged loans; or asset-based loans, among others.
- Acquisition, Development and Construction (ADC) loan concentrations of 100 percent or more of TC.
- Obligations of one or a closely related group of municipalities<sup>11</sup> of 100 percent or more of tier 1 capital.
- Non-agency securities (including private label mortgage backed securities, asset backed securities, and structured products) of 100 percent or more of tier 1 capital.
- Single source funding concentrations of 10 percent or more of TA.
- Aggregate levels of potentially volatile funding sources of 25 percent or more of TA.

Examiners have the option to combine concentrations with similar risk characteristics into one written analysis. For example, if the institution has ADC loans exceeding 100 percent of TC that include an exposure to a single developer of more than 25 percent of TC, then both concentrations may be combined into one analysis.

Identify only the funded exposures in the "Detail" and "Amount Extended" columns; unfunded amounts should be commented on in the narrative analysis. Undisbursed loan commitments should not be included when calculating the listing threshold for a concentration. However, examiners should consider, and address in written analysis if warranted, the impact of the unfunded loan commitments (e.g., acquisition, development and construction lending) in the assessment of concentration management.

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<sup>11</sup> Examiner judgment is needed to assess when municipalities are related. For example, if a bank invests over 100% of tier 1 capital in municipals located in one county, an examiner could find that there is an economic co-dependence on local employers and other microeconomic factors that could collectively impact the local municipalities' repayment capacity in some counties but not in others. Secondly, an examiner could find that a class of municipal securities, like non-rated bonds, "dirt" bonds, or revenue obligations, might be appropriate for inclusion as a concentration above 100 percent of tier 1 capital.



**Written Analysis Instructions**

The written analysis should address material factors within the following topical areas.

**Identification** – Briefly describe the concentration and the percentage of capital or assets it represents. Also, describe the methodology used by the institution to identify and monitor exposure to this specific concentration and provide an assessment of its effectiveness.

**Economic and Competitive Factors** - Discuss and assess management's consideration of relevant economic and competitive conditions that affect the risk profile of the concentration.

**Risk Stratification and Vulnerability Assessment** - Discuss the current risk profile and trends, including (when appropriate) product type, collateral type, geographic location, internal risk ratings, source of funding, and other factors deemed relevant.

Also, include management's assessment of the concentration's vulnerability to an economic downturn, sharp interest rate movements, or other stress events. For asset concentrations, detail management's estimate of potential deterioration in credit quality and provide an assessment of the reasonableness of the methodology used. For funding concentrations, include management's estimate of exposure to potential increased volatility or risk of run off.

Comments should also specifically address any interrelationship between concentrated asset and funding exposures, especially if an economic downturn or other stress event could negatively affect both positions at the same time.

**Risk Management and Control Processes** - Discuss the adequacy of risk management practices and control processes regarding the concentration including current levels, proposed levels, and stress test results (if applicable). Comments should also address the following matters:

- Management's consideration of current and projected economic and competitive factors when establishing guidance and monitoring processes such as limits, underwriting standards and pricing terms. When applicable, such as for certain commercial real estate, subprime, or leveraged loan concentrations, this should also include stress test assumptions.
- Strategic actions to address changing risk profiles of the concentration, including capital adequacy determinations, staffing and managerial needs, pricing actions, etc.
- Adequacy of the incorporation of analytical information (such as stress test results, if conducted) into policy limits, staffing and managerial resources, capital support, funding requirements, etc.
- Sufficiency of reports used by management and the Board regarding concentration exposure levels and risk estimates.

**Summary** - Summarize management's plans regarding administration and oversight of the concentration and assess the concentration's overall risk profile.

*Reference:*

- FIL-9-2001 Subprime Lending
- FIL-104-2006 Commercial Real Estate Lending Joint Guidance
- FIL-13-2010 Funding and Liquidity Risk Management Interagency Guidance
- FIL-18-2010 Correspondent Concentration Risks Interagency Guidance

**CAPITAL CALCULATIONS**

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**Purpose**

The purpose of this schedule is to detail regulatory capital calculations, including adjustments resulting from examination findings.

**General**

Examiners should prepare this schedule according to Part 324 of the FDIC Rules and Regulations. The date of the financial information should be the same as the Examination as of Date.

**Computation of Common Equity Tier 1 Capital**

The definition of Tier 1 Capital is the same for both Leverage and Risk-Based Capital standards.

Individual line items are provided for Common Equity Tier 1 Capital elements, followed by Adjustments and Deductions to Common Equity Tier 1 Capital. Refer to Schedule RC-R of the Call Report Instructions for line item explanations.

In addition to those items, make adjustments for any of the following items identified during the examination process:

***Assets Other Than Held-for-Investment Loans & Leases Classified Loss*** - This item includes assets classified Loss other than held-for-investment loans and leases, such as loans held for sale (or trading), securities, other real estate, and other assets classified Loss.

Automated examination tools may not distinguish between loans held for investment and loans held for sale and may automatically deduct all loans classified Loss from the Allowance for Loan and Lease Losses calculation in Tier 2 Capital. In such instances, examiners should make adjustments to remove the amount of loans held for sale (or trading) classified Loss from the *Less: Held-for-Investment Loans and Leases Classified Loss* line item and make adjustments to include such amount in the *Less: Assets Other than Held-for-Investment Loans and Leases Classified Loss* line item.

***Additional Provision to be Transferred to Tier 2 for Inadequate ALLL*** - Refer below for explanation.

***Other Adjustments to and Deductions from Common Equity Tier 1 Capital*** - This item may include:

- **Contingent Liabilities Losses** - Category I contingent liabilities classified Loss and Category II contingent liabilities Estimated Loss. Refer to the RMS Manual of Examination Policies (Manual) Sections 2.1 - Capital and 3.8 - Off-Balance Sheet Activities for an explanation of Category I and II contingency liabilities, Loss classification, and Estimated Loss. Do not include in this line item Potential Loss, which should be included in the Memorandum section as discussed below. *Note:* To the extent allowances for credit losses on off-balance sheet credit exposures are included in the Allowance for Loan and Lease Losses line item for Tier 2 calculation purposes and are available to cover the Category I contingent liabilities classified Loss, do not include the Category I Loss classifications in the Contingent Liabilities Losses to be deducted from Common Equity Tier 1 Capital; instead include the Loss in the item for Less: Held-for-Investment Loans and Leases Classified Loss.
- **Differences in Accounts Which Represent Shortages** - Shortages in assets (to the extent not already included in *Assets Other Than Held-for-Investment Loans and Leases Classified Loss* above), overages in liability accounts, or liabilities not shown on the institution's books. Refer to Section 2.1 - Capital for an explanation of Liabilities Not Shown on Books.

- Losses From Apparent Criminal Violations - Material losses attributed to a criminal violation that cannot be addressed by a specific asset classification should be deducted from Common Equity Tier 1 Capital. When the exact amount of the loss has not been determined, the examiner may recommend that the institution engage an outside accountant or legal counsel to conduct an appropriate audit or investigation.

Include the above items only when significant, and add appropriate footnotes. Refer to inadequate ALLL section below for discussion on what is significant.

### **Computation of Additional Tier 1 Capital**

Individual line items are provided for the Additional Tier 1 Capital elements. Refer to Schedule RC-R of the Call Report Instructions for line item explanations.

### **Computation of Tier 2 Capital**

Individual line items are provided for Tier 2 Capital elements. Refer to Schedule RC-R of the Call Report Instructions for line item explanations.

### **Allowance for Loan and Lease Losses (ALLL)**

The line item, *Allowance for Loan & Lease Losses*, is the ALLL (excluding any Allocated Transfer Risk Allowances) reflected on the Comparative Statements of Financial Condition page. If applicable, add any allowances for off-balance sheet credit exposures reflected in RC-G, Other Liabilities. As necessary, deduct the amount of held-for-investment loans and leases classified Loss on the line item *Less: Held-for-Investment Loans and Leases Classified Loss* and include any adjustments necessary to replenish the ALLL to an appropriate level in the line item *Add: Additional Provision Transferred from Common Equity Tier 1 Capital*. The resulting figure is the *Adjusted Allowance for Loan and Lease Losses*.

Loans held for sale (or trading) classified Loss should not be included in the amount *Less: Held-for-Investment Loans and Leases Classified Loss*, such losses should instead be included in *Less: Assets Other than Held-for-Investment Loans and Leases Classified Loss* in the Common Equity Tier 1 Capital calculation. Manual adjustments to automated examination tools may be necessary, as discussed above. Also refer to the discussion on Contingent Liabilities Losses in the Common Equity Tier 1 Capital section above.

**Eligible ALLL** - The eligible amount of the ALLL to be included in Tier 2 Capital is limited to 1.25 percent of Risk-Weighted Assets base for purposes of calculating the ALLL (RWA base), as defined in Call Report Instructions. The RWA base should be adjusted to reflect examination findings as outlined in the RWA section below. When the eligible amount is less than the amount shown on the line item *Adjusted Allowance for Loan and Lease Losses*, the ineligible ALLL is shown on the line item *Less: Excess Allowance for Loan and Lease Losses (If Applicable)*.

### **Deductions for Loss Classifications and Inadequate ALLL**

Part 324 states that on a case-by-case basis and in conjunction with supervisory examinations of an FDIC-supervised institution, other deductions from capital may also be required. These should include any adjustments deemed appropriate for identified losses, including assets other than held-for-investment loans and leases classified Loss and provisions for an inadequate ALLL.

Use the following method to adjust capital for items classified Loss and to adjust for an inadequate ALLL. This method avoids adjustments that may result in a double deduction when Common Equity Tier 1 Capital already has been effectively reduced through the provision expense in establishing an appropriate ALLL level. Additionally,

this method addresses those situations where certain institutions have overstated the amount of their Common Equity Tier 1 Capital by failing to take provision expenses necessary to establish and maintain an appropriate ALLL level.

**Method**

- The amount of Loss for items other than held-for-investment loans and leases is deducted from the calculation of Common Equity Tier 1 Capital.
- Loss for held-for-investment loans and leases are deducted from the ALLL in the calculation of Tier 2 Capital and, if significant, examiners should deduct from Common Equity Tier 1 Capital the provision expenses necessary to replenish the ALLL to an appropriate level (as discussed in the ALLL paragraph above).

Evaluation of the appropriateness of the ALLL includes consideration of the amount of adversely classified loans and leases. If the ALLL is considered inadequate, make an estimate of the amount of provision expense needed for an appropriate ALLL. Make the estimate after the identified losses in the ROE have been deducted from the ALLL. Do not deduct loans and leases classified Doubtful from capital. These items will be included in the evaluation of the ALLL and, if appropriate, will be accounted for by the adjustment for an inadequate ALLL.

Make an adjustment from Common Equity Tier 1 Capital to Tier 2 Capital for an inadequate ALLL only when the amount is considered significant. The decision as to what is significant is a matter of judgment. As such, consider how much the adjustment would change the capital ratios, how much the reader's perception of the institution's capital level will be influenced, and whether the institution's capital category for Prompt Corrective Action will be changed. Where adjustments for an inadequate ALLL may reduce an institution's capital level to a point where Prompt Corrective Action or other restrictions may apply, particular care and attention, including consultation with the appropriate field supervisor and regional office, should be considered prior to incorporating such adjustments in the ROE.

***Other-than-Temporary Impairment (OTTI):*** If an institution made the Accumulated Other Comprehensive Income (AOCI) opt-out election for regulatory capital purposes and it has debt securities (not held for trading) classified Loss because of OTTI, the portion of the amount classified Loss related to all factors other than credit losses that will be included in AOCI (if any) should be reversed using line item *Other Adjustments to and Deductions from Common Equity Tier 1 Capital*. For examination as of dates prior to January 1, 2018, if an institution did not make the AOCI opt-out election and has debt securities (not held for trading) classified Loss because of OTTI, a percentage of the portion of the amount classified Loss related to all factors other than credit losses that will be included in AOCI (if any) should be reversed using the same line item so that the deduction from Common Equity Tier 1 Capital reflects the AOCI adjustment transition schedule outlined in Part 324.

**Capital Treatment of Other Real Estate (ORE) Allowances**

ORE valuation allowances are not recognized as a component of capital for either Risk-Based Capital or Leverage Capital standards. A valuation allowance is established for each parcel of ORE during the holding period when the real estate's fair value minus the estimated costs to sell the real estate is less than the real estate's *cost*. Call Report Instructions clarify that valuation allowances must be determined on an asset-by-asset basis. As a result, the individual valuation allowance should be subtracted from the related asset's *cost* to determine the property's carrying value.

**Risk-Weighted Assets**

Risk-Weighted Assets are as of the latest Call Report date. Refer to Schedule RC-R of the Call Report Instructions for information regarding the Risk-Weighted Assets calculation. Adjustments for any Risk-Weighted Assets classified Loss should be reflected in line item *Less: Risk-Weighted Asset Amounts Deducted from Capital*. This line item should also include adjustments for items identified during the examination process in the *Other Adjustments to and Deductions from Common Equity Tier 1 Capital* line item, but only to the extent the items were risk weighted. For example, a Category I contingent liability classified Loss should be deducted if the contingent

liability is included in the calculation of risk-weighted assets; however, other losses that are not associated with an asset or off-balance sheet item that is included in the calculation of risk-weighted assets should not be deducted from Risk-Weighted Assets.

The amount deducted from Risk-Weighted Assets should represent the risk-weighted portion of the asset. Automated examination tools may deduct the classified Loss amount instead of the risk-weighted portion; examiners should adjust the automated examination tool deduction from risk-weighted assets if the difference is significant (refer to the inadequate ALLL section above for discussion on significance).

### **Average Total Assets**

Average Total Assets are as of the latest Call Report date. Refer to Schedules RC-K and RC-R of the Call Report Instructions for detailed information on this figure. Use the amounts deducted from Common Equity Tier 1 Capital above to adjust *Average Total Assets* to calculate *Average Total Assets for the Leverage Ratio*. *Note:* Do not deduct *Other Adjustments to and Deductions from Common Equity Tier 1 Capital* that are not associated with an asset. For example, do not deduct contingent liabilities losses from *Average Total Assets*.

Use Average Total Assets from the latest Call Report date, even if using a month-end financial date throughout the ROE.

### **Memoranda Items**

***Capital Conservation Buffer (beginning first quarter of 2016)*** - The capital buffer necessary to avoid limitations on distributions and discretionary bonus payments.

***Securities appreciation (depreciation)*** - The dollar amount of securities appreciation (depreciation), net of Loss classifications, reflected in the HTM and AFS portfolios.

***Contingent Liabilities*** - The first item, Contingent Liabilities, refers to Category I contingent liabilities. The second item, Potential Loss, refers only to Category II contingent liabilities. Refer to the *Contingent Liabilities* entry in Manual Section 2.1 – Capital for a discussion of potential and estimated losses.

### **Advanced Approaches Institutions**

For an advanced approaches institution that has existed parallel run, consult with the Regional Capital Markets Specialist to make any necessary adjustments to Tier 2 Capital, Total Capital, and Risk-Weighted Assets. It may be necessary to overwrite existing Allowance for Loan and Lease Losses line items in Tier 2 on the Capital Calculations page to reflect eligible credit reserves.

Reminder: Examiners adjusting the Call Report schedule within automated examination tools (such as GENESYS) to reflect correction of Call Report filing errors identified during the examination, should also determine if other capital components are impacted and require adjustments. Adjustments to Tier 2 Capital may impact Additional Tier 1 Capital deductions. Likewise, adjustments to certain Common Equity Tier 1 Capital, Additional Tier 1 Capital, or Tier 2 Capital elements may impact Common Equity Tier 1 Capital deductions. Examiners should ensure that any adjustments are in accordance with Call Report Instructions for schedule RC-R.

#### *References:*

- Part 324 of the FDIC Rules and Regulations
- Manual Section 2.1 - Capital
- Call Report Instructions

**ANALYSIS OF EARNINGS**

←

**Purpose**

This page provides an overview of a bank's earnings and changes in equity accounts. It also summarizes activity in the ALLL and trends in pertinent ratios.

**Selection of Financial Periods**

Use dates consistently in the Comparative Statement of Income, Reconciliation of Allowance for Loan and Lease Losses, and Other Component Ratios and Trends sections.

Three financial data columns are available, allowing for two calendar years and one interim period (or three calendar years for examinations commencing shortly after the end of a calendar year). The interim period should correspond with the Examination as of Date.

**Comparative Statement of Income**

This schedule should reflect data that conforms to Call Report Instructions. Headings correspond to those in the Report of Income, the supplemental Comparative Statements of Income and Changes in Equity Capital Accounts page, and the UBPR (except that the UBPR is completed on a tax-equivalent basis). Automated examination tools will populate the data fields; however, examiners should modify the information if necessary (for example, if Call Report changes are required or if information other than quarter end is used). Footnote all changes made.

**Total Non-Interest Expense** - Total non-interest expense is commonly referred to as overhead expense.

**Applicable Income Taxes** - Worksheets for calculating Call Report Applicable Income Taxes are included in quarterly Call Report updates. The worksheets can be beneficial in verifying the accuracy of income tax accruals.

**Extraordinary Credits (Charges)**, - Items that qualify for inclusion in this category are rare; refer to Call Report Instructions for details.

**Other Increases/Decreases** - This title does not correspond to a specific Call Report category but encompasses all categories in the Changes in Equity Capital section (RI-A) that are not included in other line items.

**Reconciliation Of Allowance For Loan And Lease Losses (ALLL)**

**Negative Provisions to the ALLL** - Negative provisions may be appropriate if clearly supported and applicable accounting guidelines are followed.

**Other Increases (Decreases)** - Other Increases (Decreases) in the ALLL are rarely encountered; refer to Call Report Instructions for details.

**Other Component Ratios and Trends**

Examiners should include additional ratios when they are informative and support ECC page comments.

The Net Income to Average Total Equity Ratio is commonly referred to as the Return on Equity (ROE) ratio.

**Noncurrent Loan and Leases to ALLL Ratio** - Note the difference in definitions of noncurrent loans and leases and past-due loans and leases. Refer to the User's Guide for the UBPR and Call Report Instructions for these definitions.

**COMPARATIVE STATEMENTS OF INCOME AND CHANGES IN EQUITY CAPITAL ACCOUNTS**

←

**Purpose**

This page provides details of income and expense items and a summary of changes in equity capital accounts. Include this schedule when needed to support ECC page comments.

**General**

Complete this schedule according to Call Report Instructions.

Dates used should be consistent with the Analysis of Earnings page.

**Footnotes**

Only footnotes, not comments, should appear here.

**RELATIONSHIPS WITH AFFILIATES AND HOLDING COMPANIES**

←

**Purpose**

Examiners use this page for detailing information on bank affiliates, their relationships to the bank, and credits extended to affiliated entities. It can also be used to provide a financial overview of the bank's holding company.

**General**

Include this schedule, when needed, to support MRBA, ECC, or RMA page comments.

**Financial Statements** - While examiners may obtain financial statements of the holding company (consolidated and parent-only), affiliates, and consolidated and unconsolidated subsidiaries for financial analysis purposes, include the statements in the Report only when necessary to support comments.

**Service Corporations and Premises Subsidiaries** - Affiliated service corporations and affiliates holding title to premises or ORE for the institution's benefit should be included here.

**Holding Company Ratios And Trends**

Ratios are included to facilitate holding company financial analysis. All ratios, except This Institution's Assets to Consolidated Holding Company Assets, are available in the Federal Reserve Bank Holding Company Performance Reports (BHCPR). Calculate the referenced ratio from information in Call Reports and the BHCPR. The inclusion of additional BHCPR ratios is encouraged when the ratios contribute to financial analysis or comments.

The type and availability of BHCPRs depend upon the size of a holding company's consolidated assets. A BHCPR is produced quarterly for three groups of top-tier bank holding companies (collectively, "holding companies"): holding companies with consolidated assets of \$1 billion or more, holding companies that are required to file the FR Y-9C and FR Y-9LP to meet supervisory needs, and holding companies that are not subject to the FRB's risk-based capital guideline but elect to voluntarily comply with the guidelines and file the FR Y-9C and FR Y-9LP report forms.

**Extensions of Credit to Affiliated Organizations Schedule**

Extensions of credit to, and securities issued by, affiliated organizations (when the organizations are related interests of insiders), should be included both here and on the Extensions of Credit to Directors/Trustees, Officers, Principal Shareholders, and Their Related Interests page.

Include extensions of credit to insiders that are collateralized by securities issued by affiliated organizations (as well as on the Extensions of Credit to Directors, Officers, Principal Shareholders and Their Related Interests page).

Include these items because they are subject to the provisions of Section 18(j) of the Federal Deposit Insurance Act and Section 23A of the Federal Reserve Act with regard to determining possible violations of extensions of credit to affiliated organizations.

Indirect extensions of credit include borrowings guaranteed by an affiliate.



**Comments**

**Holding Company** - Describe holding company relationships here. Generally include the following information:

- Name,
- Location,
- Period of existence,
- Number of shares of the institution's stock owned or controlled by the company, by each subsidiary of the company, and by trustees for the benefit of stockholders or members of the company, and
- A description of holding company trends and their potential impact on the institution. Consider the amount and terms of outstanding debt, lender- or Federal Reserve System-imposed restrictions or covenants, and the dividend payout record. Discuss any adverse trends, conditions, and recommendations on the MRBA, ECC or RMA page, depending upon their significance.

Include comments on the MRBA or ECC page when payments from an institution to its holding company are large and do not appear justified based on the services received by the institution. Also, consider compliance with Section 23B of the Federal Reserve Act.

**Affiliates/Subsidiaries** - Fully describe affiliate relationships in the comments section. The following information should be included:

- Name,
- Location,
- Asset size,
- Net income,
- Nature of affiliation,
- Period of existence,
- Circumstances under which the affiliation arose, and
- Primary business activities of the affiliate.

Include officers or directors when relevant. Additionally, include details regarding the amount and terms of any transactions, including extensions of credit, to and from affiliates. This information is important because the provisions of Section 18(j) of the Federal Deposit Insurance Act and Section 23A of the Federal Reserve Act apply insofar as determining possible violations of extensions of credit to affiliated organizations. Generally, comments should be brief pertaining to each extension of credit.

**Nonbank Banks** - Note when the institution under examination is a grandfathered nonbank bank. List violations of the Competitive Equality Banking Act of 1987 on the Violations of Laws and Regulations page and summarize the violations in a memorandum to the Regional Office. In such cases, include appropriate information on the parent company.

*References:*

- Related Organizations section of the Manual
- User's Guide for the Bank Holding Company Performance Report
- Section 18(j) of the FDI Act
- Section 23A of the Federal Reserve Act
- Section 23B of the Federal Reserve Act
- Interagency Policy Statement on Income Tax Allocation in a Holding Company Structure
- Federal Reserve Board Regulation W
- Part 362 of the FDIC's Rules and Regulations

**EXTENSIONS OF CREDIT TO DIRECTORS, OFFICERS, PRINCIPAL SHAREHOLDERS, AND THEIR RELATED INTERESTS**

←

**Purpose**

The purpose of this page is to provide details regarding loans extended to bank insiders and their related interests.

**When to Include**

Use this schedule to highlight loans to directors, executive officers, principal shareholders, and their related interests that are subject to criticism due to overall volume, credit quality, or preferential treatment.

**General**

Cross-reference here and on the appropriate Report pages extensions of credit subject to adverse classification, violation, or comment. List the current balances of indebtedness in the total column. Footnote charged-off items.

If a director or principal shareholder is also an executive officer, include that person as an executive officer. (Executive officers are subject to the more stringent restrictions of Regulation O.)

**Definition of Terms**

Prepare the schedule in conformance with Regulation O definitions of extension of credit, unimpaired capital and surplus, director, executive officer, principal shareholder, and related interest.

**List of Insider Credits**

List insiders alphabetically by description: Group A (Executive Officers and their related interests), and Group B (Directors/Trustees and Principal Shareholders and their related interests). Generally, comments regarding extensions of credit to insiders should be brief and not include detailed descriptions of the credits or related collateral. However, include details on material overdrafts or other unusual items.

Per Regulation O, directors, executive officers, and principal shareholders of the holding company are considered to be directors, executive officers, and principal shareholders, respectively, of the institution. As such, the prior approval, terms, creditworthiness, and lending limit provisions of Regulation O are applicable. List these individuals when appropriate.

In unusual circumstances, examiners may wish to obtain information regarding extensions of credit to non-executive officers and other employees. If such information is listed, do not include the indebtedness in the table at the top of the schedule.

**Duplications With Extensions of Credit to Affiliates**

Extensions of credit to, and securities issued by, affiliated organizations that are related interests of insiders should be reported here and on the Extensions of Credit to Affiliated Organizations schedule of the Relationships with Affiliates and Holding Companies page.

*References:*

- Federal Reserve Board Regulation O
- Section 337.3 of the FDIC Rules and Regulations
- Manual Section 4.3, Related Organizations

## COMPOSITE RATING DEFINITIONS

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### Purpose

This page provides definitions of the composite CAMELS (UFIRS) and specialty examination ratings detailed in the ROE. Disclosure of composite and component ratings encourages a more complete discussion of examination findings and assists bank directors and managers in making effective risk management decisions.

### General

Examiners should ensure that each composite rating listed on the ECC page is defined on this page. List definitions in the same order as the ratings listed on the ECC page.

#### *References:*

- Uniform Interagency Consumer Compliance Rating System - Statement of Policy 11/28/80
- Appendix A to Part 345 of the FDIC's Rules and Regulations
- Uniform Rating System for Information Technology (FIL 12-99 02/05/99)
- Uniform Financial Institutions Rating System (FIL 105-96 12/26/96)
- Uniform Interagency Trust Examination Rating System (FIL 115-98 10/21/98)

All rating definitions are available at [www.fdic.gov/regulations/examinations/ratings/](http://www.fdic.gov/regulations/examinations/ratings/).

If the automated examination tool is used to generate the ROE, the rating definitions should appear upon entering the composite ratings on the ECC page.

**SIGNATURES OF DIRECTORS/TRUSTEES**

←

**Purpose**

This page, when signed and dated by all of the institution's directors, serves as the directors' certification that they each reviewed the Report in its entirety.

This form is the last page in all ROEs forwarded to institutions.

**General**

Enter the full name of each director in alphabetical order. This will facilitate the proper signatures of directors after they reviewed the ROE.

The page will be included in the institution's copy of the ROE. The signed form is to remain attached to the Report and retained in the institution's files for examiner review at subsequent examinations.

**OFFICER'S QUESTIONNAIRE**

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**Purpose**

The purpose of the Officer's Questionnaire (Questionnaire) is to obtain information that might not otherwise come to the examiner's attention during the examination.

**General**

- The Questionnaire is an official document prepared by the institution. Examiners must not alter the specific questions or answers in any way.
- Generally, the chief executive officer (CEO) should sign the Questionnaire. However, an executive officer, as defined by Regulation O, may sign if designated to do so by the CEO and material concerns are not anticipated.
- The EIC has flexibility in determining the as-of date of the Questionnaire. The Questionnaire may be completed as of the Examination as of Date or the Examination Start Date. However, the Questionnaire should never be completed as of a date subsequent to the date the institution received the questionnaire.
- The Questionnaire should be completed on a consolidated-bank basis.
- In general, bank management should be instructed to base their responses on transactions or events that have occurred since the date of the previous FDIC examination. Where a specific timeframe is not specified in the question, examiners have the discretion to request only information since the previous state examination if the state ROE is acceptable. Exception: responses to questions 10, 11, and 12 are not to be limited to any time period.
- Examiners may review these instructions with management to help them understand and complete the Questionnaire.
- Answers can be listed on continuation pages if adequate space is not provided following a question. Copies of the institution's records are acceptable if the documents furnish all the requested information and contain original signatures. If responses are voluminous, they may be provided separately from the Officer's Questionnaire. The Questionnaire should state when separate information was given to the EIC, and the information should identify the questions to which it pertains.
- Financial institutions can submit Questionnaire responses in a printed form (such as hardcopy attachments), in a secure electronic format (such as through FDICconnect), or in a combination of paper and electronic documents. Upon receipt of Questionnaire responses, examiners should scan any printed forms into an electronic portable document format (pdf) file and convert any electronically received documents into a pdf file, to the extent not already in pdf format. Examiners should then import the pdf files of the documents into the Officer's Questionnaire folder in the Regional Automated Document Distribution and Imaging System (RADD).
- If an EIC believes an officer gave an answer in error due to oversight or misunderstanding, the signing officer may be permitted to correct the answer. The signing officer should initial all corrections.
- The Questionnaire may be submitted with the Report of Examination when appropriate. For example, the
- Questionnaire should be included if the examiner suspects that an officer knowingly provided incorrect information in the document.
- The Questionnaire should be retained for a minimum of ten years from the examination start date.
- The Questionnaire should be retained indefinitely when irregularities are discovered or suspected during the ten-year retention period.
- If management is given an electronic copy of the Questionnaire, examiners must carefully compare the returned questionnaire to ensure the wording in each question is identical to the wording in original documents.

**Question 1**

List all extensions of credit and their corresponding balances, which, since the last FDIC examination, have been renewed or extended under any of the following circumstances:

- a) without full collection of interest due
- b) with acceptance of separate notes for the payment of interest
- c) with capitalization of interest to the balance of the note

For all listed loans, state which situation applies. Consumer credit/installment loans may be aggregated by number and total dollar volume.

**The purpose of the question is to:**

- Determine the extent of interest capitalization.
- Identify loans with potentially poor credit quality.
- Identify credit practices that may distort past-due information.
- Identify practices that may adversely affect the quality of the institution's reported earnings.

Forward affirmative answers to examiners reviewing loans. An excessive number of these loans may distort the institution's financial position by overstating earnings and understating the past-due ratios. If there is a lengthy response to this question, it may be appropriate to include comments regarding the accuracy of the past-due ratios on the RMA page. Excessive use of these practices may warrant an ECC page comment.

**Question 2**

List all extensions of credit secured by stock of other financial institutions, or financial institution holding companies, or their affiliates where the total of all shares held as collateral represents five percent or more of the entity's outstanding shares. Provide the following information for each listing:

- Name and location of entity
- Name of stockholder and borrower
- Number of shares held as collateral
- Percentage of ownership
- Certificate number(s)
- Original amount
- Current balance
- Origination date
- Maturity date
- Interest rate
- Purpose

**The purpose of the question is to:**

- Assist in determining compliance with the reporting requirements of Section 7(j) of the FDI Act.
- Assist in determining or assessing the extent of interbank activity, and assist in understanding relationships between entities and their management teams.
- Review insider relationships, when applicable.
- Assist in determining or assessing direct or indirect control issues, asset quality, and dividend requirements of other entities.
- Generate information necessary for bank correspondence cross-referencing and verifying the accuracy of information at other institutions.

*References:*

- Section 7(j) of the FDI Act
- Section 23A of the Federal Reserve Act
- Bank Holding Company Act
- Manual Section 4.3, Related Organizations

**Question 3**

List all extensions of credit made for the accommodation or direct benefit of anyone other than those whose names appear either on the note or on other related credit instruments. If any executive officer, principal shareholder, director, or their related interest (per Federal Reserve Board Regulation O definitions) is or was involved.

**The purpose of the question is to:**

- Determine compliance with applicable laws and regulations.
- Assist in reviewing legal lending limits.
- Assist in determining asset quality.
- Assist in determining concentrations.
- Assist in reviewing potential conflicts of interest.
- Identify straw borrowers, also known as bogus or pass-through borrowers. If loan proceeds went to the benefit of a person other than the person named on the note, or otherwise disclosed in bank records, it should be applied to the benefiting parties' aggregate debt for legal lending limit purposes.

*References:*

- Federal Reserve Board Regulation O
- Part 353 of the FDIC Rules and Regulations
- Manual Section 4.5, Violations of Laws and Regulations

**Question 4**

List all extensions of credit made by the bank (or its subsidiaries) to the officers, directors, (or their related interests) of other financial institutions or their affiliates. Provide the following information for each listing:

- Name and title of director, officer, or related interest
- Name and location of the entity
- Original amount
- Original date
- Current balance
- Maturity date
- Interest rate
- Security
- Purpose

**The purpose of the question is to:**

- Allow for the appropriate cross-referencing of files and verification of data at other institutions.
- Determine compliance with applicable laws and regulations.
- Assist in reviewing potential conflicts of interest and preferential treatment.
- Assist in determining the extent of such activities, and assist in better understanding the entities' business relationships with each other.
- Assist in reviewing asset quality.
- Assist in determining concentrations in this type of lending.

*Reference:* Section 106(b)(2) of the Bank Holding Company Act

**Question 5**

List all transactions between the institution and any of its executive officers, principal shareholders, directors, or their related interests, except for:

- Loans
- Deposits
- Bonuses
- Salaries
- Director fees

Include the insider's name, as well as the date and nature of the transaction.

**The purpose of the question is to:**

- Determine the extent, and allow for the review, of insider transactions.
- Assist in determining whether insider transactions harmed the institution.

Reportable transactions may involve equipment leases, leasing of bank premises, or insiders providing institution-related services such as appraisals, IT services, legal services, or insurance.

*References:*

- Manual Section 9.1, Fraud and Insider Abuse
- Manual Section 4.5, Violations of Laws and Regulations
- Manual Section 4.1, Management

**Question 6**

List any oral or written agreements with correspondent depository institutions that establish balances to be maintained, or other similar consideration, in connection with loans to either institution's directors, officers, employees, or principal shareholders.

**The purpose of the question is to:**

- Assist in reviewing potential conflicts of interest.
- Assist in determining if such transactions have an adverse effect on the institution.
- Assist in reviewing potential misapplication of funds.
- Assist in determining tying arrangements per Section 106 of the Bank Holding Company Act of 1956.
- Assist in assessing practices related to establishing or maintaining relationships via oral agreements, if any.

*Reference:* Manual Section 4.3, Related Organizations

**Question 7**

List all extensions of credit to accountants, lawyers, consultants, appraisers, or other similar individuals (including their related interests) who have provided professional services to the institution since the last FDIC examination. Exclude loans to directors, officers, or employees who perform these services, if such loans have been disclosed to examiners in other documents. Provide the following information for each listing:

- Name of borrower
- Borrower's relationship with the institution
- Current Balance

**The purpose of the question is to:**

- Assist in reviewing potential conflicts of interest.



**Question 8**

List all arrangements where the institution is obligated to make payments to a former institution-affiliated person (per Section 3 of the FDI Act) who has left the institution's employment, or has otherwise terminated his/her affiliation with the institution. Provide the following information for each listing:

- Name of person receiving payments
- Total amount of payments
- Basis for payment
- Explanation of the type of agreement (such as severance pay or deferred compensation)

If more than one person is covered by a single agreement, list the plan only once and summarize the plan's coverage.

**The purpose of the question is to:**

- Determine compliance with applicable laws and regulations regarding severance agreement payments.
- Identify poorly designed compensation structures that misalign incentives and induce excessive risk-taking.
- Determine potential abuse resulting from excessive compensation.
- Determine potential adverse effects on profitability.
- Assist in checking the accuracy of accounting issues and financial statements (that is, if the institution has booked appropriate liabilities).

This question looks for potential payments that may meet the definition of a golden parachute payment as defined by Section 18(k) of the FDI Act. Such payments might be prohibited if the institution becomes troubled. Examiners can also use the information provided in the response to review for excessive compensation.

*References:*

- Section 18(k) of the FDI Act
- Part 324 of the FDIC Rules and Regulations (Prompt Corrective Action)
- FIL-66-2010 Guidance on Golden Parachute Applications
- Part 364 of the FDIC Rules and Regulations
- Manual Section 4.1, Management

**Question 9**

List any written or oral contract or agreement (not included in responses to questions five and eight above) that obligates the institution to pay more than ten percent of its current equity capital over the life of the contract or agreement. Provide the following information for each listing:

- Name of the counter party or payee
- Date of the contract or agreement
- A brief description of the purpose, terms and conditions

**The purpose of the question is to:**

- Assist in identifying undesirable lengths of contracts and potential excessive liabilities.
- Assist in determining any impairment of capital.
- Review for adverse termination clauses.
- Determine impact on the institution's future profitability.
- Assist in assessing practices related to establishing or maintaining relationships via oral agreements, if any.

Use the Regulation O definition of equity capital when determining ten percent of equity capital.

This question is intended to identify contracts that may adversely affect the safety and soundness of the institution. Appropriate management review and approval should be recorded for large contracts.

*Reference:* Section 30 of the FDI Act

**Question 10**

List any director who has been ineligible or disqualified from serving as a director at any time. Also, furnish the reason for his/her ineligibility or disqualification.

**The purpose of the question is to:**

- Determine compliance with applicable state laws and regulations.
- Verify the directors' continued eligibility to serve on the bank's board. For example, many states require a director to own and maintain qualifying shares of stock in the institution. In addition, some state laws prohibit individuals from serving as a director, if their loan(s) have been adversely classified. State laws generally govern the meaning of disqualification for the response to this question. However, any current director that was ever deemed ineligible from serving as a director at an insured depository institution due to statutory or regulatory guidelines (state or federal), or internal (bank) restrictions, should be identified. Cross-check responses here with responses in question No. 12 for possible tie-ins.

**Question 11**

List all instances where a director, officer, or employee has committed a crime involving the institution's funds or property, including any funds or property for which the institution is responsible. Provide the following information for each listing:

- Name(s) of all individuals involved
- Date and nature of irregularities
- Extent of restitution made, if any
- Whether the proper law enforcement authorities and the fidelity bond carrier were promptly notified

If either law enforcement officials or the bond carrier was not notified, explain the situation in a separate memorandum to the examiner-in-charge.

**The purpose of the question is to:**

- Determine compliance with applicable laws and regulations.
- Ensure notification was given to proper authorities.
- Assist in reviewing recovery potential from the bonding company.
- Indicate possible internal routine and control deficiencies.

*References:*

- Section 8(e) of the FDI Act
- Part 353 of the FDIC Rules and Regulations
- Manual Section 4.5, Violations of Laws and Regulations

**Question 12**

List any director, officer, or employee who has been convicted of, or who is presently under indictment or similar action for, or has agreed to enter into a pretrial diversion or similar program in connection with the prosecution for any criminal offense involving dishonesty, breach of trust, or money laundering. Briefly describe the situation.

**The purpose of the question is to:**

- Determine compliance with applicable laws and regulations.
- Assess conformance with corporate codes of conduct and bank ethics policies
- Assess UFIRS Management component

*References:*

- Sections 8(e), 8(g), and 19 of the FDI Act
- FIL 105-2005, Corporate Codes of Conduct, Guidance On Implementing An Effective Ethics Program
- Manual Section 4.1- Management

**Question 13**

List all assets of value the institution owns but does not show on its books.

**The purpose of the question is to:**

- Assist in ensuring proper internal control and accounting over such items.
- Assist in determining the institution's capital position.

This question may encompass a variety of answers. Typical answers include charged-off assets of undetermined value.

*Reference:*

- Manual Section 2.1, Capital
- Manual Section 3.7, Other Assets and Liabilities
- Manual Section 4.1, Management
- Manual Section 4.2, Internal Routine and Controls

**Question 14**

If the institution is a defendant in any lawsuit, provide the following summary information:

- Names of the plaintiffs
- Amount sued for
- Nature of, or basis for, litigation
- Expected result, including any probable loss

If necessary, provide full details to examiners, in a separate memorandum.

**The purpose of the question is to:**

- Determine the impact of contingent liabilities, the likelihood of contingencies becoming direct liabilities, and the potential impact on capital.

In some instances, institutions incur significant costs in obtaining a formal attorney's letter. As such, examiners should not specifically request or require such a letter as a means of answering this question. Nonetheless, many institutions will obtain an attorney's letter. Normally, a summary should be provided here, and the attorney's letter(s) should be retained in the examination workpapers. If the letter(s) are being included in the Report (with the Officer's Questionnaire), include the letters on a continuation page.

*References:* Manual Section 2.1, Capital - Contingent Liabilities

**Question 15**

List all organizations that are directly or indirectly affiliated with, or otherwise related to, the institution in any way, including fiduciary relationships. Related organizations may be corporations, partnerships, business trusts, or any similar organization. Provide the following information for each listing:

- Name of affiliate or related entity
- Location
- Type of business
- Current balance of all direct and indirect extensions of credit to the affiliate (per Section 23A of the Federal Reserve Act)
- Current balance of all loans to third parties, where the loans are collateralized with securities issued by the affiliate

**The purpose of the question is to:**

- Identify affiliated or related organizations.
- Identify loans to affiliates or related organizations.
- Reveal trust powers and the extent to which trust powers are exercised.
- Ensure all contingent liabilities are reviewed.

*References:*

- Section 303.7 of the FDIC Rules and Regulations
- Section 23A of the Federal Reserve Act
- Manual Section 4.3, Related Organizations
- Manual Section 12.1, Applications
- Trust Examination Manual, Section 10, Other Trust Matters

## CONFIDENTIAL – SUPERVISORY SECTION

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### Purpose

The purpose of this page is to communicate non-public information to regulatory personnel. Generally, information on this page should not duplicate information in the open section of the Report.

Use descriptive headings to separate topics and improve readability.

### Mandatory Comments

***Institution Control and Relationships*** - Concisely identify the individuals or organizations that control the institution, material subsidiaries, and affiliates. Such information is important in tracking chain bank organizations and updating holding company records.

Examiners should interpret the word "controlled" broadly. Control may exist in an individual or group, through stock ownership, or other means. Depending on the situation, ownership of varying percentages of stock may result in control. In a mutual institution, effective control may exist in the form of a board, committee, or dominant individual. A concentration of decision-making power and a lack of oversight or accountability are keys to determining the level of control.

#### *References:*

- Change in Bank Control - Section 7(j) of the FDI Act
- Part 362 - Activities of Insured State Banks and Insured Savings Associations
- Statement of Policy on Changes in Control in Insured Nonmember Banks

***Director Involvement*** - Prepare a brief statement summarizing the extent of director participation during the examination process.

***Examination Scope*** - Prepare a post-examination comment addressing any significant deviations between projected and actual hours (greater than 15 percent deviation), examination scope, or examination procedures. If significant variances did not occur, provide a sentence such as, "There were no significant variances between projected and actual examination hours, examination scope, or examination procedures."

***Loan Penetration*** - Include the following:

- Asset review date,
- Number of relationships reviewed,
- Dollar volume of credit extensions reviewed/percent of total credit extensions,
- Dollar volume of non-homogenous credit extensions reviewed/percentage of total non-homogenous credit extensions, and
- Credit review cutoff point (if applicable).

The loan penetration comment may also include a breakdown of scoped loans by major loan type, location, officer, or other information.

This information can be effectively presented in chart form.

***Bank Secrecy Act Review Scope*** - Include the BSA examination number and a brief comment detailing the scope of the BSA review and the procedures performed. Include the time period for which FinCEN CTR/SAR filing data was compared to bank records, and identify the individuals with whom BSA review findings were discussed. If the bank's policy allows for numbered accounts, indicate their existence to ensure these high-risk accounts are reviewed at subsequent examinations.

*Office of Foreign Asset Control Scope* - Include a brief comment stating the scope of the OFAC review and the procedures performed.

*Unlawful Internet Gambling Enforcement Act Scope*- Include a brief comment stating the scope of the UIGEA review and the procedures performed.

### **Specialty Examinations**

Examiners should use this page to communicate information that would be inappropriate or unnecessary to include in the open section of the ROE. Comments should conform to outstanding specialty directives, but in general may include:

- Specialty examination numbers (used for hours tracking),
- A brief scope statement, noting any areas of in-depth review,
- Confidential information supporting examination comments, recommendations, and ratings,
- Confidential information regarding management, strategic plans, offices, products, or services, and
- Recommendations for future examinations.

### **Situation-Specific Comments**

The following topics can be addressed on this page:

- Confidential information supporting the management rating,
- Comments reconciling apparent discrepancies between the assigned rating and recommended supervisory actions (or lack of recommended actions),
- Planned management changes,
- Sensitive or nonpublic information such as merger discussions, and
- Difficulties conducting the examination due to lack of cooperation from management.

### **Capital Enhancement Sources**

When applicable, note potential capital resources, including the perceived capacity and willingness of potential investors to purchase stock. The following items may also be addressed:

- A complete list of present shareholders detailing the amount of stock held and their financial worth (small holdings may be aggregated if a complete listing is impractical),
- Individual director's capacity and willingness to purchase stock,
- A list of prominent customers and depositors who are not shareholders but who may be interested in acquiring stock,
- A list of other individuals or possible sources of support in the community who, because of known wealth or other reasons, might want to subscribe to new stock, and
- Any other information regarding new capital sources, along with the examiner's opinions regarding the most likely prospects for the sale of new equity.

### **Express Determination Letters**

Include a brief comment if management requests, and is provided or denied, an express determination letter for tax purposes. For additional details, refer to Section 3.2 (Loans), of the Manual.

**Suggestions and Comments for Future Examinations**

Comments may include the following:

- Name of external IT servicer(s), applications serviced, and contact personnel,
- Personnel needed to start an examination,
- Special personnel requirements, (for example, capital markets experts),
- Name and location of branches to be included in the next examination,
- Locations and business hours for branches, operation centers, or credit offices,
- Records maintained at locations other than the main office,
- Number and working hours of state examiners at joint or concurrent examinations,
- Working space limitations, and
- Any other information that may improve examination efficiencies.

**Recommendations for Administrative Actions**

Do not reference administrative actions on the Confidential Page. Address, in a separate memorandum, actions such as: (1) imposing or not imposing civil money penalties, (2) terminating insurance, (3) issuing a Cease and Desist Order or other formal action, (4) issuing a Memorandum of Understanding or other informal action (Board Resolution), and (5) releasing an institution from outstanding action.

When administrative action is contemplated, remember that Confidential-Supervisory Section comments may be a matter of record at an administrative hearing. All comments must be accurate, well supported, and able to withstand cross-examination.

## DIRECTORS/TRUSTEES AND OFFICERS

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### Purpose

This confidential page provides information of interest to nonbank users of the ROE. The information assists Case Managers, other field, regional, or Washington Office management, and other regulatory authorities in their case management, applications processing, ROE review, and general bank supervision duties.

### General

List all directors, executive officers, and principal shareholders (as defined in Federal Reserve Regulation O) under those respective subtitles. Other officers or employees (such as officers who head functional areas or the internal auditor) may be included at the discretion of the examiner-in-charge. Generally, detail functional responsibilities, banking experience, and post-secondary education for all officers listed. For directors, include their occupation, banking experience, and any other significant information relating to their contribution to the institution. When relevant, identify the related interests of all directors, executive officers, and principal shareholders.

Include holding company officers or directors who exert significant control over the institution's affairs (for example, when a holding company treasurer manages a subsidiary institution's investment portfolio), even though they are not official officers/directors of the institution.

While inclusion of this page in the ROE is discretionary, the information must be gathered and input into the automated examination tool for transmittal to reviewers. Retain copies of source documents in the workpapers.

### Other

**Net Worth** - Directors' net worth should be obtained and included when relevant (for example, when an institution's capital position is inadequate and directors may be a source of additional capital). When estimated net worths are obtained, footnote the Date of Statement column to indicate the source of information (for example, net worths estimated by President Smith).

**Attendance at Board Meetings** - Board meeting attendance figures shown should be since the previous FDIC or state examination, unless otherwise noted.

**Parent Company Ownership** - If a holding company owns the institution, note ownership in the holding company. If relevant, examiners may include the percentage of shares owned below the number of shares owned. When informative, total the Number of Shares Owned column. Show the percentage of shares controlled by the directorate as a whole.

**Salary and Bonus** - Footnote the dates of salary and bonus information if it is not the current annual salary or most recent annual bonus.

**Home Addresses of Directors** - List the directors' complete home addresses here or on a separate continuation page when the following conditions exist:

- Formal or informal administrative action is contemplated,
- The institution is rated a composite 3, 4, or 5, or
- Civil money penalties may be recommended.

**Memoranda** - Note the following information:

- Number of board meetings since the previous FDIC or state examination
- Memberships in important committees (particularly audit)
- Directors' fees for board and committee meetings



## APPENDIX A – ABBREVIATIONS

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The following are the principal abbreviations used in this Report of Examination.

et al	And Others	MM	Millions
et ux	And Spouse	MMDA	Money Market Deposit Account
a/k/a	Also Known As	Mtge	Mortgage
AA	Average Assets	MV	Market Value
AGI	Adjusted Gross Income	NI	Net Income
AL	Acres of Land	NIM	Net Interest Margin
ALLL	Allowance for Loan and Lease Losses	NOI	Net Operating Income
AP	Accounts Payable	NOW	Negotiable Order of Withdrawal
APBO	Accounting Principles Board of Opinion	NP	Notes Payable
AR	Accounts Receivable	NR	Notes Receivable
ARM	Adjustable Rate Mortgage	NW	Net Worth
AV	Appraised Value	OA	Other Assets
BHC	Bank Holding Company	OD	Overdraft
BSA	Bank Secrecy Act	OH	Overhead
BV	Book Value	OL	Other Liabilities
CA	Current Assets	ORE	Other Real Estate
CD	Certificate of Deposit	OS	Operating Statement
CL	Contingent Liabilities	PL	Prior Lien
CLOC	Commercial Letter of Credit	PLLL	Provision for Loan and Lease Losses
CPA	Certified Public Accountant	PORE	Potential Other Real Estate
CSV	Cash Surrender Value	PPD	Prepaid
CT	Certificate of Title	PS	Property Statement
d/b/a	Doing Business As	PV	Par Value
DPC	Debts Previously Contracted	ROA	Return on Assets
DT	Deed of Trust	RBC	Risk-Based Capital
EDP	Electronic Data Processing	REM	Real Estate Mortgage
End	Endorser or Endorsed	RSA	Rate-Sensitive Assets
EV	Estimated Value	RSL	Rate-Sensitive Liabilities
F&F	Furniture and Fixtures	RE	Real Estate
FA	Fixed Assets	SA	Security Agreement
FASB	Financial Accounting Standards Board	SBA	Small Business Administration
FHA	Federal Housing Administration	SFAS	Statement of Financial Accounting Standards
FHLB	Federal Home Loan Bank	SFR	Single-Family Residence
FHLMC	Federal Home Loan Mortgage Corporation	SLOC	Standby Letter of Credit
FNMA	Federal National Mortgage Association	TA	Total Assets
FS	Financial Statement	TE	Tax Equivalent Basis
GP	General Partner	TL	Total Liabilities
GNMA	Government National Mortgage Association	UBPR	Uniform Bank Performance Report
Gty	Guarantor or Guaranteed	UCC	Uniform Commercial Code
Inc	Incorporated	VA	Veteran's Readjustment Act
ISF	In-Substance Foreclosure	WC	Working Capital
JM	Joint Maker		
JV	Joint Venture		
LOC	Line of Credit		
LP	Limited Partner		
LS	Livestock		
M	Thousands		
M&E	Machinery & Equipment		
MBS	Mortgage-Backed Security		
Mdse	Merchandise		

**APPENDIX B – GRAMMAR AND PUNCTUATION GUIDE**

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The general rules and standards contained in this appendix are applicable only to the Report of Examination. The rules and standards cover matters commonly encountered in Report comments and are intended to promote consistency. The general rules are not a substitute for writing and grammar guides. Refer to those resources for formal guidance.

**HYPHENATION - ADJECTIVES:**

**General Rule:** Two- and three-word modifiers that express a single thought should be hyphenated when they precede a noun (an out-of-date policy).

Do not use a hyphen if each of the words can modify the noun without the aid of the other modifying word or words (a new digital computer).

Do not hyphenate words that follow the noun they modify (the policy is out of date).

Examples:

A full-scope examination began on June 30.

The loan is secured by a single family residence.

The apartment complex has 50 units.

**HYPHENATION - PREFIXES:**

**General Rule:** Words containing prefixes generally do not require hyphens. Include the hyphen after the prefix if not doing so would cause confusion in sound or meaning.

Examples:

nonaccrual

nonperforming

subtotal

**HYPHENATION - COMPOUND VERBS:**

**General Rule:** Compound verbs can be separate, solid, or hyphenated. If you do not find a compound verb in a dictionary, write the components as separate words.

Report standards:

charge off

paid off write off/ up/ down

**HYPHENATION - COMPOUND NOUNS:**

**General Rule:** Compound nouns may be separate, solid, or hyphenated. If you are not certain whether a compound word should be hyphenated, check a dictionary. If you do not find a compound noun in a dictionary, hyphenate the components.

**Report Standards:** charge-off      pay-off      write-off/-up/-down      examiner-in-charge

**HYPHENATION - SUSPENDING HYPHEN:**

**General Rule:** When a series of hyphenated adjectives has a common basic element, and the element is shown only with the last term, insert a suspending hyphen after each of the incomplete adjectives to indicate a relationship with the last term.

Examples:

long- and short-term securities  
private- and public-sector partnerships

**HYPHENATION - ADVERBS:**

**General Rule:** If the first word is an adverb ending in “ly,” do not use a hyphen.

Examples:

publically held                      widely held                      wholly owned

**CAPITALIZATION:**

**General Rule:** There are numerous exceptions to basic capitalization rules. The most important rule is to be consistent throughout a Report. Examiners may deviate from the following standards as long as they are consistent.

**Report Standards:** Do not capitalize bank unless it is used with the full name of the institution.

Capitalize Board of Directors, Board, or Directors when referring to a specific board.

Capitalize Call Report, Call Report Instructions, and Consolidated Reports of Condition and Income.

Do not capitalize examiner-in-charge unless it is followed by a specific person’s name.

Capitalize account titles (for example, Other Borrowings).

Capitalize only the word Federal in Federal funds sold or purchased (unless referring to an account title).

Capitalize Regional Director and Regional Office.

Capitalize Report of Examination and Report when referring to a specific report.

Do not capitalize the word State unless referring to a specific public agency or the word is being used in the same sentence as Federal (which should always be capitalized).

Capitalize Substandard, Doubtful, Loss, and Special Mention when referring to FDIC asset classification titles.

Capitalize the specific titles of formal institution policies (for example, the Loan Administration Policy vs. the loan policy).

Capitalize the titles of specific institution committees (for example, the Audit Committee).

**DATES:**

**Report Standard:** A comma precedes and follows the year when the month and day precede the year. However, when the date consists only of month and year, commas are not necessary.

**Examples:** The examination that began on December 2, 1998, was completed in two weeks.  
The report is due in January 1999.

**NUMBERS:**

**General Rule:** Write out numbers below 10. Use figures for numbers 10 and above. Regardless of the number's size, use figures if they are followed by a unit of measure. Write out numbers that begin a sentence. Do not begin a sentence with a large number.

**Examples:** The bank employs five people.  
The examiners cited 14 deficiencies.  
Twenty-six examiners attended the field office meeting.

**SPELLING:**

**Report Standards:** installment                      totaling                      totaled