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# Corporate Trust Examination Program

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## Examination Objectives

To determine the adequacy and effectiveness of the trust department's administration of corporate trust accounts. Consider whether:

- effective policies, procedures and internal controls have been established;
- there is sufficient management and staff expertise to administer these accounts;
- the legitimate needs of security holders and other interested parties are met in a professional and timely manner;
- policies and procedures ensure compliance with governing instruments, applicable law and accepted fiduciary principles; and
- deficiencies are identified and corrective action promptly initiated.

## Examination Procedures

Wkp. Ref.

### Level I

Level I procedures first focus on a review of the examination scoping materials. The next step consists of interviews with trust department personnel to confirm their qualifications and levels of expertise; to determine if the trust department's practices conform to written guidelines; to establish whether any significant changes in personnel, operations or business practices have occurred; or whether new products or services have been introduced. If items of concern are uncovered during Level I procedures or if problems are identified during the preexamination monitoring and scoping, the examiner may need to perform certain Level II procedures.

1. Review examination scoping materials related to corporate trust accounts. Scoping material should include:
  - Risk profile
  - Pertinent PERK documents
  - Previous trust and asset management examination report
  - Workpapers from the previous examination

**Exam Date:** \_\_\_\_\_  
**Prepared By:** \_\_\_\_\_  
**Reviewed By:** \_\_\_\_\_  
**Docket #:** \_\_\_\_\_

Page 1 of 10

---

## Corporate Trust Examination Program

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**Wkp. Ref.**

- Examination reports of subordinate, functionally regulated entities
  - Board of director and other applicable committee minutes
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2. Determine the account types and volumes of accounts currently being administered. Identify any changes in product and service offerings since the previous examination. If applicable, determine that necessary approvals, notifications or registrations have been filed.
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3. Determine whether management and staff have the expertise to effectively manage corporate trust accounts.
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4. Review policies, procedures and practices related to the administration of corporate trust accounts. Identify any significant changes since the last examination. Determine their adequacy relating to:
- acceptance of accounts;
  - administration of accounts;
  - termination of accounts;
  - conflicts of interest;
  - monitoring for instances of default; and
  - compliance with escheat laws.
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5. Review internal risk management, audit and compliance programs for adequate coverage of corporate trust activities.
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**Exam Date:** \_\_\_\_\_  
**Prepared By:** \_\_\_\_\_  
**Reviewed By:** \_\_\_\_\_  
**Docket #:** \_\_\_\_\_

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## Corporate Trust Examination Program

---

Wkp. Ref.

6. Consider whether the following risk contributors have been addressed:
- Does management fully understand all aspects of risk associated with corporate trust accounts?
  - Has the board implemented appropriate policies, procedures, practices and internal controls covering all facets of account administration?
  - Have comprehensive and effective audit, compliance and risk management processes been established?
  - Does management exhibit familiarity with applicable law and accepted fiduciary principles?
  - Are appropriate management reporting systems in place?
  - Does the trust department exhibit consistency in account administrative practices?
  - Are standards in place governing account documentation?
  - Are there material unresolved corporate trust account issues noted in audit, compliance or examination reports?

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**The completion of Level I procedures may provide sufficient information to make a determination that no further examination procedures are necessary. If no determination can be made, proceed to Level II.**

### Level II

Level II procedures focus on an analysis of trust department documents, such as reports and outsourcing contracts. The examiner should complete the appropriate Level II procedures when the completion of Level I procedures does not reveal adequate information on which to base a conclusion that the trust department meets the examination objectives. Neither the Level I nor the Level II procedures include any significant verification procedures.

**Exam Date:** \_\_\_\_\_  
**Prepared By:** \_\_\_\_\_  
**Reviewed By:** \_\_\_\_\_  
**Docket #:** \_\_\_\_\_

Page 3 of 10

---

## Corporate Trust Examination Program

---

**Wkp. Ref.**

1. Review the trust department's account set-up procedures and practices. Consider whether:
  - all appropriate documentation is obtained and reviewed;
  - accurate synoptic information is assembled and maintained; and
  - necessary tickler systems are in place.

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2. Review procedures for processing interest and dividend payments, lost securities, maturities, early redemptions, splits and dividend reinvestments. Confirm compliance with SEC standards for control, turnaround, documentation and reporting.

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3. If there are unresolved exceptions present from internal or external audit reports, compliance reports or examination reports, discuss corrective action with management.

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4. Review controls over dormant accounts or unclaimed funds. Consider whether:
  - appropriate controls are in place;
  - funds are segregated and periodically reconciled; and
  - proper disposition of funds has been made either through return to the obligor or escheatment to the appropriate state authority.

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5. Determine if procedures address the filing of necessary approvals, notifications or registrations.

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**Exam Date:** \_\_\_\_\_  
**Prepared By:** \_\_\_\_\_  
**Reviewed By:** \_\_\_\_\_  
**Docket #:** \_\_\_\_\_

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## Corporate Trust Examination Program

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Wkp. Ref.

6. Ensure that there are procedures for determining the status of alleged lost, missing or stolen securities, e.g. proper notification procedures with the Securities Information Center (SIC).  

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7. Determine if there have been any losses from improper or untimely reporting of tax information.  

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8. If necessary to validate an assertion, finding or concern arising from the completion of the Level I and II procedures, judgmentally select a limited number of accounts for review considering the degree of risk to the institution. Not all types of accounts need to be reviewed to arrive at a well-founded conclusion.  

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**If the examiner cannot rely on the trust and asset management Level I and Level II procedures, or data contained in department records or internal or external audit reports, proceed to Level III.**

### Level III

Level III procedures include verification procedures that auditors usually perform. Although certain situations may require that Level III procedures be completed, it is not the standard practice of the Office of Thrift Supervision (OTS) examination staff to duplicate or substitute for the testing performed by auditors.

1. Select a sample of bond trustee accounts. Review the account files to determine compliance with applicable law or accepted fiduciary standards, as well as internal policy and procedure. Confirm that the trust department is complying with the terms of the trust indenture.  

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**Exam Date:** \_\_\_\_\_  
**Prepared By:** \_\_\_\_\_  
**Reviewed By:** \_\_\_\_\_  
**Docket #:** \_\_\_\_\_

Page 5 of 10

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## Corporate Trust Examination Program

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**Wkp. Ref.**

2. Select a sample of corporate agency accounts. Review the files to determine compliance with applicable law or accepted fiduciary standards, as well as internal policy and procedure. Confirm that the trust department is complying with the terms of the governing instrument.

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3. Select a sample of mortgage-backed pass-through securities accounts. Review the files to determine compliance with applicable law or accepted fiduciary standards, as well as internal policy and procedure. Confirm that the trust department is complying with the terms of the governing instrument.

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4. Review successor appointments to determine whether acts of prior fiduciaries are reviewed, assets are properly received and other appropriate documentation is obtained.

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5. Identify all bond trustee accounts where instances of default have occurred. Determine that appropriate actions have been initiated according to the governing instruments.

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6. Verify the accuracy of audit, compliance and risk management report findings.

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7. Review and verify the accuracy of any applicable management exception reports.

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**Exam Date:** \_\_\_\_\_  
**Prepared By:** \_\_\_\_\_  
**Reviewed By:** \_\_\_\_\_  
**Docket #:** \_\_\_\_\_

Page 6 of 10

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## Corporate Trust Examination Program

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### Examiner's UITRS Rating, Summary, Conclusions and Recommendations:

#### References - 750P

##### Laws

Trust Indenture Act of 1939  
Trust Indenture Reform Act of 1990

##### Code of Federal Regulations

12 CFR 550                      Trust Powers of Federal Associations (General)  
12 CFR 550.410                Recordkeeping

##### Office of Thrift Supervision Publications

##### Other

UCC                                Article 9

#### Workpaper Attachments - 750P

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**Exam Date:** \_\_\_\_\_  
**Prepared By:** \_\_\_\_\_  
**Reviewed By:** \_\_\_\_\_  
**Docket #:** \_\_\_\_\_

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# Corporate Trust Examination Program

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## Optional Topic Questions

The following list of questions is offered merely as a tool and reference for the examiner and is not a required part of the examination process.

### ***Acceptance of Accounts***

<ul style="list-style-type: none"><li>• Has all necessary documentation been obtained and reviewed?</li></ul>
<ul style="list-style-type: none"><li>• Are the duties and requirements of the trustee identified?</li></ul>
<ul style="list-style-type: none"><li>• If necessary, has a legal opinion regarding the indenture been obtained?</li></ul>
<ul style="list-style-type: none"><li>• Has the ability of the trust department to perform its responsibilities been assessed?</li></ul>
<ul style="list-style-type: none"><li>• Has the likely repayment capacity of the issuer/obligor been analyzed?</li></ul>
<ul style="list-style-type: none"><li>• Has the relationship been reviewed for conflicts of interest?</li></ul>
<ul style="list-style-type: none"><li>• Has the integrity of the issuer/obligor been assessed?</li></ul>
<ul style="list-style-type: none"><li>• For real estate collateral, have any environmental issues been addressed?</li></ul>
<ul style="list-style-type: none"><li>• Has the profitability of the account been considered?</li></ul>
<ul style="list-style-type: none"><li>• Has the account been approved by the appropriate committee/individual as per policy?</li></ul>

### ***Account Set-up Procedures***

<ul style="list-style-type: none"><li>• Has the following documentation been obtained:<ul style="list-style-type: none"><li>• Original or certified copy of the trust indenture, including any amendments or supplements?</li><li>• Evidence of recordkeeping, as required by state or local law?</li><li>• Certificate of incorporation of the issuer?</li><li>• Authorizing corporate resolution by the board of the issuer?</li><li>• Opinion of counsel supporting the legality of the issue, if deemed necessary?</li><li>• Authorization of stockholders, court officials, creditors or other bondholders, as necessary?</li><li>• Specimen signatures of authorized corporate personnel of the issuer?</li><li>• Approvals of any regulatory authorities, as necessary?</li><li>• Identification and authentication of all collateral?</li><li>• Evidence of title to the collateral or documentation that the appropriate lien position has been recorded in accordance with state or local law?</li><li>• Evidence that appropriate insurance of collateral is in place?</li><li>• Any other necessary documentation as indicated by the trust indenture?</li></ul></li></ul>
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**Exam Date:** \_\_\_\_\_  
**Prepared By:** \_\_\_\_\_  
**Reviewed By:** \_\_\_\_\_  
**Docket #:** \_\_\_\_\_

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## Corporate Trust Examination Program

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| <ul style="list-style-type: none"><li>• Evidence that the above documentation was reviewed and approved for acceptance by the appropriate committee?</li></ul> |
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### ***Annual and Administrative Reviews***

<ul style="list-style-type: none"><li>• Is synoptic information confirmed to be accurate?</li></ul>
<ul style="list-style-type: none"><li>• Are tickler systems functioning properly?</li></ul>
<ul style="list-style-type: none"><li>• Are all administrative duties performed in accordance with the terms of the indenture?</li></ul>
<ul style="list-style-type: none"><li>• Have instances of default been appropriately identified and addressed?</li></ul>
<ul style="list-style-type: none"><li>• Have conflicts of interest been appropriately identified and addressed?</li></ul>
<ul style="list-style-type: none"><li>• Are accurate records on security certificates (blank, unissued, issued, outstanding, returned, destroyed) properly maintained?</li></ul>
<ul style="list-style-type: none"><li>• Are reviews performed in a timely manner, in accordance with regulation and internal policy?</li></ul>
<ul style="list-style-type: none"><li>• Have timely payments of principal and interest been made?</li></ul>
<ul style="list-style-type: none"><li>• Are payments to any special funds created under the instrument, such as sinking funds being made?</li></ul>
<ul style="list-style-type: none"><li>• Are only authorized investments being utilized?</li></ul>
<ul style="list-style-type: none"><li>• Has appropriate documentation and authorization been maintained for the receipt, retention or release of collateral?</li></ul>
<ul style="list-style-type: none"><li>• Is adequate insurance in force?</li></ul>
<ul style="list-style-type: none"><li>• Are the receipt and review of obligor's annual financial statements, annual reports or other documentation performed and documented?</li></ul>
<ul style="list-style-type: none"><li>• Are real estate, or other applicable property or tangibles, tax payments current?</li></ul>
<ul style="list-style-type: none"><li>• Have completion certificates been received?</li></ul>
<ul style="list-style-type: none"><li>• Have annual officer affidavits been received?</li></ul>
<ul style="list-style-type: none"><li>• Has documentation supporting construction advances been obtained?</li></ul>
<ul style="list-style-type: none"><li>• Are appropriate reserves being maintained?</li></ul>

### ***Successor Appointments***

<ul style="list-style-type: none"><li>• Is proof obtained of the prior trustee's removal or resignation?</li></ul>
<ul style="list-style-type: none"><li>• Are original or certified copies of governing instruments obtained?</li></ul>
<ul style="list-style-type: none"><li>• Does the department verify that all governing documents and essential supporting documentation has been received?</li></ul>
<ul style="list-style-type: none"><li>• Do department personnel obtain and review accountings by prior trustee(s)?</li></ul>
<ul style="list-style-type: none"><li>• Is a reconciliation perform to ensure that all assets, as well as income thereon, have been received?</li></ul>

**Exam Date:** \_\_\_\_\_  
**Prepared By:** \_\_\_\_\_  
**Reviewed By:** \_\_\_\_\_  
**Docket #:** \_\_\_\_\_

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## Corporate Trust Examination Program

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| <ul style="list-style-type: none"><li>• Does the trust department obtain indemnification from the prior trustee?</li></ul> |
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### ***Mortgage-backed Pass-through Securities***

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| <ul style="list-style-type: none"><li>• If the trust department acts as trustee or agent for mortgage-backed pass-through securities, are any of the pools privately insured?</li></ul>  |
| <ul style="list-style-type: none"><li>• Is the insurer in sound financial condition and appropriately licensed?</li></ul>  |
| <ul style="list-style-type: none"><li>• Is the amount of the insurance adequate to satisfy the loan if the underlying mortgage goes into default?</li></ul>  |
| <ul style="list-style-type: none"><li>• Is the trust department in compliance with the duties and responsibilities described in the governing instrument?</li></ul>  |
| <ul style="list-style-type: none"><li>• Do the trust department or qualified outside parties review the adequacy of loan documentation?</li></ul>  |
| <ul style="list-style-type: none"><li>• Does the trust department review appraisals of the underlying properties to verify that such appraisals have been conducted and are adequate?</li></ul>  |
| <ul style="list-style-type: none"><li>• Are there any conflicting relationships with the mortgage banker and, if so, are the savings association's policies and procedures sufficient to protect itself in the event of default of the debt?</li></ul> |

**Exam Date:** \_\_\_\_\_  
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**Reviewed By:** \_\_\_\_\_  
**Docket #:** \_\_\_\_\_

Page 10 of 10