
Leasing Activities Program

Examination Objectives

To determine if the policies, procedures, and controls regarding leasing activities adequately ensure safety and soundness, profitability, and compliance with laws, regulations, and established guidelines.

To determine the quality of the assets through an analysis of underwriting and lease production, including: creditworthiness, collectability, collateral sufficiency, lease terms and other variables.

To determine if the institution employs qualified officers and employees that can adequately perform their duties and responsibilities associated with leasing.

To determine if financial records and management reports provide accurate and necessary performance and asset quality information to management and the board of directors.

To determine if any contingent liabilities exist with regard to the institution's leasing activities and whether they affect its overall soundness.

To initiate corrective action when deficiencies exist that could affect safety and soundness, or when you note violations of laws or regulations.

Examination Procedures

Level I

Wkp. Ref.

1. Review scoping materials related to leasing, including the following reports and schedules:
 - Lease trial balance listings.
 - Delinquent leases.
 - Classified leases.
 - An itemization of repossessed and returned leased property.
 - A report of the disposition of repossessed and returned property.
 - Leases in which payments are not collected in accordance with the terms of the lease.

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- Leases whose terms have been modified by reduction on interest rate or principal, or by other restructuring of repayment terms.
- Leases sold since preceding examination.
- Lease commitments and contingent liabilities.
- Extensions of lease credit to affiliated persons.
- Miscellaneous lease debit and credit suspense accounts.
- The current interest rate structure.
- The minutes of appropriate committee.
- Reports on leasing activities furnished to the board of directors.
- The current status of leases classified during the previous examination.
- A listing of rebooked charged-off leases.
- The nature and extent of leases serviced for others.
- Month-end lease account balance and total delinquency since the previous examination.

2. Evaluate the institution's policies and procedures through review of policy statements, underwriting guidelines and manuals, interviews with management, and review or recaps of board minutes.

- Determine if accounting and tax issues are adequately addressed in policies and procedures.
- Determine whether objectives and related policies are reviewed periodically and any changes communicated to the appropriate personnel.

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3. Review management reports, especially exception reports, related to this area. Assess the adequacy and accuracy of the reported information.

4. Review the qualifications, capabilities, and expertise of leasing officers in relation to their responsibilities.

5. Determine whether the institution corrected deficiencies mentioned in prior examination reports.

6. Complete the General Questionnaire.

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

Level II

8. Review the reconciliation of the subsidiary ledgers for leasing to the general ledger. Investigate any large reconciling items.

9. Select leases for review using an appropriate sampling technique. (For details on sampling, refer to Section 209 of the Thrift Activities Regulatory Handbook.) Include all of the following in your review:
 - A sample of leases per Handbook Section 209.
 - Lease accounts of employees, officers, directors, major stockholders, and their interests.

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- Lease accounts of officers and directors of other institutions.
- Lease accounts related to significant borrowers.
- Lease accounts in excess of their credit limits.

10. Analyze a sample of credit files for lessors for credit quality (earnings, indebtedness, credit history, collateral, loan modifications) and compliance with the credit policy.

11. Review lease repossessions and charge-offs.

- Determine if the institution performs charge-offs in accordance with its policies and regulatory requirements. Review the current past-due account report and test for accuracy. Review and discuss with management individual accounts not charged-off in accordance with regulatory requirements.
 - Determine if collection practices are proper and conform to policy. Review written collection procedures and test check customer contact records.
 - Review listings of charged-off leases and recoveries and prepare or update the carry forward work paper showing charge-offs and recoveries as a percentage of outstanding leases.
 - Determine and discuss with management causes of any adverse trends or significant fluctuations. Excessive lease losses are the product of weak lending and collection policies and provide a good indication of the soundness of the lease department's operations.
 - Determine if the leasing operation has rejected leases offered by brokers or third parties, or if the leasing operation accepts into portfolio all leases offered. An absence of rejected leases can be an indicator of weak credit policies and procedures.
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12. Ensure that the examination meets the Objectives of this Handbook Section. State your findings and conclusions, and appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages.
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Level III

13. Review any leveraged leases the institution has undertaken as lessor lender. Determine if the institution structured the lease in a safe and sound manner and that it complies with all OTS's loans to one borrower, transaction with affiliates, and insider lending rules.
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14. Determine if the institution has adequate inventory controls over property held for leasing.
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15. Inspect large lease properties for which the leases are past due.
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Examiner's Summary, Recommendations, and Comments

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