Office of Thrift Supervision
Department of the Treasury

Directors Guide to Management Reports

October 1999

Table of Contents

Directors Guide to Management Reports

Introduction

The increasing complexity of the financial services industry underscores the need for thrift directors, like you, to take an active role in monitoring, evaluating, and overseeing the business risks of your financial institution. To make informed decisions, you must receive accurate and timely information about your thrift s performance and its compliance with regulatory requirements.

This publication outlines the information needs of thrift directors. Our intent is to stimulate an informed discussion and give you a benchmark to compare the content and quality of your board report package. **This guide is not a list of requirements for board reports**.

You are always welcome to call upon Office of Thrift Supervision (OTS) regional office staff to arrange for individual or group visits concerning your duties or responsibilities as a thrift director. These will visits provide you and your fellow directors the opportunity to pose any questions you may have.

Section 310 of the Thrift Activities Regulatory Handbook, Oversight by the Board of Directors, outlines your responsibilities. The *OTS Directors Responsibilities Guide* provides an overview of core responsibilities for savings association directors. To fulfill these responsibilities, you must obtain monthly, quarterly, and annual reports. You should receive and review these reports before regular meetings.

Periodically, management and the board should carefully review the content of the board report package to ensure that the information is concise and complete. Reports should present only relevant information without burdensome detail.

Although reports evolve and improve over time, report formats should remain comparable from period to period. Consistency improves the effectiveness of a report as an oversight tool. Frequent changes can mask serious problems.

We do not recommend all reports described in this publication for all institutions. Instead, this is a compilation of reports you may want to consider for your use. Furthermore, the reports described here are not all-encompassing. There are other types of reports that may be useful for some institutions. For instance, reports on business plans and performance, trust activities, and sales of uninsured products may be useful for some thrifts. Each institution has its own objectives and goals. Reports should identify problems and provide strategies to meet them. Reports should also highlight progress toward goals. We remind you that, in some cases, a regulation may require you to obtain information in a periodic report from management.

This guide discusses 41 reports for your consideration in the following general categories:

- Financial Reports
- Asset Quality Reports
- Asset/Liability Management Reports
- Internal Audit and Management Review Reports
- External Reports
- Other Reports

The Financial Reports consist of basic accounting reports for any financial institution. The Asset Quality Reports focus on credit risk. Asset/Liability Management Reports address interest rate risk. The Internal Audit and Management Review Reports provide unbiased information from internal sources. The External Reports provide another independent source of information about the institution s performance. The last section describes miscellaneous reports of importance to the board.

Each report profile includes a description of the report content, examples of related warning signs, a brief rationale for the report, and references for additional information. The warning signs listed for each report are not all-inclusive. You should watch for emerging risks and be alert to changing circumstances that you need to address. Examples of emerging risks include changes in law and regulations, competition, the economy, and technical innovations. Also, some report descriptions refer to items over $X amount. Each board should establish its threshold limits for these items to avoid excessively detailed reporting.

You may find it difficult to deal with the increasing volume and complexity of information presented to the board. You may require the special expertise of committees to understand and interpret specialized data. The Table of Suggested Reports that follows this section lists some areas where committees may be advantageous.

For additional guidance, please see the OTS Directors Responsibilities Guide.

Table of Suggested Reports

Financial Reports

Suggested Minimum Frequency		Possible Committee Report
Q	Key Financial Ratios	
M	Comparative Balance Sheet and Off-Balance-Sheet Items	
M	Comparative Income and Expense Statement	
Q	Capital Adequacy	

Asset Quality Reports

Q	Asset Classifications and Criticism	Yes
Q	Allowance for Loan and Lease Losses (ALLL)	Yes
Q	Real Estate Owned (REO) and Other Repossessed Assets	Yes
M	Delinquent Loans and Leases	Yes
*	Modified and Restructured Loans	Yes
Q	Concentrations of Credit	Yes
*	Nontraditional Assets and Commitments	Yes
M	New Loan Summary	
M	Status of Major Loans and Investments	
Q	Subsidiary Financial Reports	Yes

Asset/Liability Management Reports

M	Investment Securities Portfolio Analysis	Yes
Q	Exposure to Changes in Interest Rates	Yes
M	Summary of Hedging Activities	Yes
M	Mortgage Banking	Yes
M	Statement of Cash Flow and Liquidity Risk	Yes
Q	Savings and Core Deposit Analysis	Yes

Internal Audit and Management Review Reports

Q	Internal Audit Reports	Yes
Q	Internal Loan Review	
A	Regulatory Requirements Safety and Soundness	
Q	Regulatory Requirements Compliance	Yes
A	Security Reports	Yes
Q	Regulatory Requirements Information Technology	Yes
*	Major Deficiency Follow-Up	Yes

M - Monthly **Q** - Quarterly **A** - Annually ***** - As needed

Table of Suggested Reports

External Reports

Suggested Minimum Frequency		Possible Committee Report
A	External Audit Reports and Management Letters	Yes
*	Examination Reports and Supervisory Correspondence	

Other Items

Suggested Minimum Frequency		Possible Committee Report
M	Board Minutes and Committee Reports	
*	Significant Correspondence	
*	Report of Counsel	
*	Transactions with Affiliates	
*	Transactions with Insiders	
A	Ethics Policy	
A	Management Evaluation and Personnel Reports	Yes
SA	Economic Analysis	Yes
M	Product Pricing	Yes
*	New Business Activities	
SA	Marketing	Yes
A	Insurance	Yes

M - Monthly **Q** - Quarterly **SA** - Semiannually **A** - Annually ***** - As needed

Financial Reports

KEY FINANCIAL RATIOS

Report Description

Key financial ratios reflecting quantitative examination elements: Capital Adequacy, Asset Quality, Earnings, Liquidity, and Sensitivity to Market Risk for the most recent quarter, previous quarter, and prior-year quarter. (See the following page for a suggested report format.)

The report should also include budget reports comparing actual performance for the current period, quarter, and year-to-date with projections. You should review the institution s Uniform Thrift Performance Report (UTPR) for significant variations (favorable and unfavorable) between the institution and its peer group. You should obtain explanations of significant variations from projections and from peer and industry standards.

Warning Signs

- Unfavorable trends in the institution s financial performance (for example, deteriorating earnings, shrinking capital, declining asset quality, or increasing interest rate risk).
- Unfavorable variances from the institution s peer group, regulatory minimums, or industry standards.

Rationale

Your goal is to maintain a well-capitalized, profitable lending institution that meets the needs of its community and shareholders or members. This requires sufficient core income, prudent control of credit risk, liquidity risk, and interest rate risk, as well as compliance with safety and soundness standards.

Key financial ratios that measure earnings, capital, asset quality, and interest rate risk help you to assess the financial performance of the institution and identify potential problems.

A comparison of actual performance with projected results, as well as a periodic analysis of peer group data, helps you put the institution s performance in perspective. You should obtain divisional performance reports if your thrift has independent profit centers. Management should explain any significant departures from the institution s budget or strategic plan, as well as major differences with peer group norms, industry standards, or projections.

References

OTS Regulatory Handbook - Thrift Activities, Sections: 120 (Capital Adequacy); 410 (Financial Records and Reports); 430 (Operations Analysis), and 510 (Asset/Liability Management).

Key Financial Ratios Report

(Suggested Format)

	(1)	(2)	(3)	(4)	(5)	(6)
Major Balance Sheet Items						
Total Assets						
Cash, Deposits, and Investment Securities / Total Assets						
Mortgage Pool Securities / Total Assets						
Mortgage Loans / Total Assets						
Nonmortgage Loans / Total Assets						
Deposits and Escrows / Total Assets						
Total Borrowings / Total Assets						
Equity Capital / Total Assets						
Capital Adequacy						
GAAP Capital / Total Assets						
Market Value of Outstanding Stock *						
Market Value per Share / Book Value per Share *						
Regulatory Capital Ratios: **						
Tier 1 (Core) Capital / Adjusted Total Assets						
Total Risk Based Capital / Risk Weighted Assets						
(Tier 1 (Core) Capital - Low Level Recourse Deduction) / Risk Weighted Assets						
(Tangible Capital + Cum. Perp. Pref. Stock) / Tangible Assets						

(1) Current Quarter; (2) Previous Quarter; (3) Percent Change; (4) Same Quarter, Prior Year; (5) Budget; (6) Peer Group Annual (peer group data to the extent available). The report may also show variances in these figures, expressed as dollars and percentages.

*   Publicly traded companies only
** From the Thrift Financial Report Schedule CCR

Key Financial Ratios Report

(Suggested Format)

	(1)	(2)	(3)	(4)	(5)	(6)
Asset Quality (net of specific valuation allowances)						
30-89 Day Delinquents / Total Loans						
90+ Day Delinquents / Total Loans						
Nonaccrual and 90+ Day Delinquents / Total Assets						
Classified Assets / Total Assets						
Troubled Debt Restructured / Total Assets						
Real Estate Owned / Total Assets						
(Nontraditional & Risky Assets) / Total Assets *						
Nonperforming Assets / (Core Capital + ALLL)						
Classified Assets / (Core Capital + ALLL)						
Classified Assets / Nonperforming Assets						
ALLL / Loans and Leases						
ALLL / Classified Assets						
ALLL / Nonperforming Loans						
Other Ratios						
Loan Closings / Total Loans **						
Net New Deposits / Total Assets						
Employees / $10 Million Assets						
Asset Growth / Assets						
Deposit Growth / Deposits						
Regulatory Liquidity Ratio #						

(1) Current Quarter; (2) Previous Quarter; (3) Percent Change; (4) Same Quarter, Prior Year; (5) Budget; (6) Peer Group Annual (peer group data to the extent available). The report may also show variances in these figures, expressed as dollars and percentages.

* Each thrift should define its own nontraditional & risky assets. Examples include subprime mortgages and commercial loans.

** Disaggregated by material types of loans.

\# Thrift Financial Report (TFR) Schedule SI.

Key Financial Ratios Report

(Suggested Format)

	(1)	(2)	(3)	(4)	(5)	(6)
Earnings (Annualized)						
Spread:						
Interest-Earning Asset Yield						
Cost of Funds						
Interest Income / Average Assets						
Interest Expense / Average Assets						
Net Interest Income / Average Assets						
Noninterest Income / Average Assets						
Noninterest Expense / Average Assets						
Provision for Losses / Average Assets						
Income Taxes / Average Assets						
Extraordinary Items & Accounting Changes / Average Assets						
Net Income / Average Assets (ROAA)						
Net Income / Average Equity Capital (ROE)						
Interest Earning Assets / Total Assets						
Interest Earning Assets / Interest Bearing Liabilities						
Net Income / Average Shares Outstanding						
Net Income / Loan Originations						
Interest Rate Risk						
Base-case Net Portfolio Value (NPV)						
Pre-Shock NPV Ratio (NPV as % of Present Value of Assets)						
Post-Shock NPV Ratio (Exposure Measure)						
Change in NPV Ratio (Sensitivity)						
Change in NPV as % of Present Value of Assets						
Comparison of Performance to Policy Standards						

(1) Current Quarter; (2) Previous Quarter; (3) Percent Change; (4) Same Quarter, Prior Year; (5) Budget; (6) Peer Group Annual (peer group data to the extent available). The report may also show variances in these figures, expressed as dollars and percentages.

COMPARATIVE BALANCE SHEET AND OFF-BALANCE-SHEET ITEMS

Report Description

- Asset, liability, and capital accounts, and material off-balance-sheet items for the most recent month (or quarter), compared to the prior month (or quarter), prior year, and budget, with columns showing variances (expressed as dollars and percentages).
- Include an analysis of the consolidated financial statements if there are significant subsidiaries.

The report should classify material off-balance-sheet items (such as recourse obligations and direct credit substitutes) by type, include notional and present values, and include descriptive footnotes. At least quarterly, the report should compare actual results to budget projections and explain significant differences.

Warning Signs

- Significant variances from prior periods or the budget.
- Rapidly growing or shrinking balances.

Rationale

Comparative monthly balance sheets are essential to evaluate the institution s current financial condition and developing trends. You should monitor the institution s progress in meeting its budget and address any adverse trends. Management should explain any significant variances from the institution s budget or strategic plan.

Rapid increases or decreases in account balances may indicate that the institution is deviating from previous business practices. You should question the underlying reasons for the deviation and assess whether to adjust the institution s budget to accommodate the changes. You should also determine whether any growth in assets is prudent; considering the source, volatility, and use of funds that support such growth, and any resulting increase in credit risk or interest rate risk, and the effect of the risk on the institution s capital.

Off-balance-sheet items such as commitments, loans sold with recourse, letters of credit, and financial derivatives can affect the institution and you must consider them in your institutional oversight.

References

OTS Regulatory Handbook - Thrift Activities, Sections: 410 (Financial Records and Reports); 430 (Operations Analysis); and 510 (Asset/Liability Management).

COMPARATIVE INCOME AND EXPENSE STATEMENT

Report Description

Significant categories of income and expense for the most recent month (or quarter) and fiscal year-to-date, compared with the prior month (or quarter) and prior fiscal year-to-date.

The report should compare actual results to the budget and explain significant variances. Periodically, the report should assess the profitability of departments or lines of business as well as individual products. The nature of this analysis depends on the sophistication of the institution s cost allocation system and the complexity of its lines of business and products.

Warning Signs

- Significant unfavorable variances from prior periods or the budget.
- Rapidly increasing or declining earnings.
- Excessive reliance on non-operating income to overcome poor operating results.

Rationale

You should ensure that earnings are sufficient to maintain adequate capital and reserves consistent with the institution s size, growth rate, and the nature and scope of its operations. Comparative monthly income statements will help you to judge an institution s performance, and measure the financial results of existing budgets, policies, and procedures. You should explore the underlying reasons for favorable and unfavorable earnings trends, and consider whether to continue in the same direction or make changes.

You should consider the risk-return equation when evaluating earnings: institutions with little credit risk or interest rate risk can expect lower, although stable, earnings. On the other hand, excessive interest rate risk or credit risk may indicate that management is taking unacceptable risks to boost the current net interest spread at the expense of future earnings. This will result in earnings fluctuations. You should also be sensitive to business decisions driven by accounting conventions that inflate current earnings at the expense of long-term profitability (for example, the sale of assets for a quick profit, or aggressive valuation of loan-servicing rights). Strong cost accounting systems provide measured performance of units, departments, lines of business, and products as they affect the bottom line, allowing you to ensure that each unit or product is performing adequately and efficiently.

References

OTS Regulatory Handbook -Thrift Activities, Sections: 410 (Financial Records and Reports); 430 (Operations Analysis); and 510 (Asset/Liability Management).

CAPITAL ADEQUACY

Report Description

An analysis of the institution s performance in meeting regulatory capital requirements and the institution s own internally determined capital requirements.

In the case of a capital deficiency, the report should explain the causes and describe a corrective plan. It should analyze future capital adequacy, including estimated ratios based on a budget that projects general operating results and balance sheet categories for at least three years.

Warning Signs

- A declining capital position, approaching the institution s minimum regulatory capital requirements.
- Management s failure to meet internal capital levels targeted by the approved business plan.

Rationale

Capital is a widely accepted indicator of an institution s financial health. Failure to meet regulatory capital requirements may result in regulatory restrictions, penalties, and corrective actions. Undercapitalized institutions must submit a capital restoration plan to regulators.

Directors should always consider an institution s capital position in light of other factors that significantly affect capital adequacy, such as credit quality, asset risk profile, interest rate risk, growth, and earnings.

References

OTS Regulatory Handbook -Thrift Activities, Sections: 110 (Capital Stock and Ownership); 120 (Capital Adequacy); and 261 (Adequacy of Valuation Allowances).

Asset Quality Reports

ASSET CLASSIFICATIONS AND CRITICISM

Report Description

- A comparative summary of criticized assets, valuation allowances, and delinquency rates for comparable dates.
- A summary of all watch list assets and assets currently designated as Special Mention or internally classified as Substandard, Doubtful, and Loss, categorized by asset type (such as 1- 4 family mortgage loans, consumer loans).
- The amount of the Allowance for Loan and Lease Losses (ALLL) allocated to the various classified assets groups.
- A separate itemized list of Special Mention and Substandard assets over $X amount, and a list of Doubtful and Loss assets over $X amount (generally a lower amount than for Special Mention or Substandard assets).
- A list of loans not meeting underwriting standards (for example, low documentation loans) with reasoning to support the loans.

Each list should include the asset s cost basis and any charge-offs, the carrying value of the asset, any valuation allowance established against the asset, and the fair market value or other applicable measure of the value of the collateral. The report should also note whether the asset was first classified internally, by regulators, or by independent auditors. The institution s internal asset review system should generate the report with complete independence from the lending function to ensure objectivity.

Warning Signs

- Large increases in classified asset amounts.
- Significant differences between classifications established by management and those established by regulators or independent auditors.
- Newly classified delinquent or foreclosed loans (ideally, classification should precede collection problems).
- Increases in classified assets without corresponding increases in the ALLL.

Rationale

Asset classification and criticism are essential tools for evaluating asset quality, the adequacy of the ALLL, and loan portfolio risk. OTS regulations require every institution to classify its assets on a regular basis using an internal asset review system, and to establish appropriate valuation allowances.

The volume and severity of classifications serve as a barometer for assessing the financial condition of an institution, and reflect the thrift s ability to formulate and implement sound lending policies and procedures. You should review this information to evaluate material asset concentrations, establish reserves sufficient to absorb estimated losses, resolve problem assets, and assess overall asset quality.

References

OTS Regulatory Handbook -Thrift Activities, Sections: 260 (Classification of Assets) and 261 (Adequacy of Valuation Allowances).

ALLOWANCE FOR LOAN AND LEASE LOSSES (ALLL)

Report Description

Support for the institution s ALLL and other general valuation allowances, including both quantitative and qualitative information.

Institutions with diverse portfolios should provide a separate ALLL analysis for each loan type. Classification and delinquency trends are usually material factors in the calculation of the ALLL and should be part of the analysis. The report should also provide information on losses and loss provisions recognized during the quarter and a comparison of performance with policy goals.

Warning Signs

- Ratios that indicate decreased coverage of possible losses.
- A trend of increasing losses.
- Adverse changes in national and local economic and business conditions and forecasts.

Rationale

Generally Accepted Accounting Practices (GAAP) require that you establish loan loss allowances at the time you deem a loss to be probable and estimable. Managing the ALLL is an integral part of your thrift s credit risk management process. Your thrift should maintain prudent, conservative, but not excessive, loan loss allowances. To determine the right amount of ALLL, you should consider your thrift s historical loss experience. You should also consider your thrift s portfolio composition, level of classified assets, its underwriting standards, adequacy of collateral, environmental conditions, and current economic trends. The ALLL is increased through an expense provision for loan losses. An inadequate provision for loss will overstate current operating results and will require increased provisions in subsequent accounting periods, which may significantly depress future earnings. You may not wait until the loss is certain. For some portfolios, this may require provisions coincident with originations. Failure to recognize and account for probable and estimable losses may delay prompt actions needed to reduce lending risks for the thrift.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: 261 (Adequacy of Valuation Allowances).

REAL ESTATE OWNED (REO) AND OTHER REPOSSESSED ASSETS

Report Description

A summary of real estate owned and acquired in lieu of payment of debt by the borrower (REO), as well as any other repossessed assets. List all REO over $X amount with the following information:

- Date acquired.
- Borrower s name.
- Name and location of the property.
- Book value.
- Fair value (including date and method of determination).
- Internal classification (if any).
- Income or loss generated by the property (for the period and cumulative).
- A description of efforts to dispose of the property compared with management s marketing or disposal plan.
- Source of the loan, last classification of the loan.
- Disposition of assets, gain or loss.

Warning Signs

- A rapidly increasing level of REO.
- A disproportionate amount of REO from one source (loan officer, branch, broker).
- REO resulting from a loan that was not classified.
- REO that is not classified.
- REO not adjusted to the lower of fair market value or the recorded investment in the loan, as of the acquisition date.
- Long holding periods for REO.
- REO sold at a price significantly below its carrying value.

Rationale

REO usually results from defaults on loans. Rapid increases in REO and repossessed assets are a warning sign that economic conditions are deteriorating or that loan underwriting or administration standards are either deficient or not being followed.

You must review the salability of properties held for an excessive time period. Properties held for more than five years may affect the institution s regulatory capital requirements. A long holding period generally indicates that a property is not worth its stated value or is not marketed effectively. REO sold for a price significantly below its carrying value suggests a faulty appraisal or a poorly managed sale.

Regulators are likely to question the valuations of institutions with a history of significant losses on the sale of REO.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: 251 (Real Estate Owned and Repossessed Assets).

DELINQUENT LOANS AND LEASES

Report Description

- Summary of all loans and leases past due 30 to 59 days, 60 to 89 days, and 90 days or more.
- Summary of nonaccrual loans, categorized by loan type (for example, one- to four-family permanent loans, construction loans).
- List all delinquent loans and leases over $X amount or more than 120 days past due with the following information:
  - Identification number.
  - Name of borrower or lessee.
  - Amount of loan or lease.
  - Classification status.
  - Months delinquent.
  - Market value of collateral (if any) and date of determination.
  - Date of most recent contact with borrower or lessee and outcome.
  - Status of foreclosure efforts (for secured loans only).
  - Management s estimate of collectability.
  - Collection dates.
- Summary of all loans and leases over 30 days past due that were originated within the past year.
- Periodic summary of all loans with due dates extended.

Warning Signs

- Increasing levels of delinquency, especially longer-term delinquencies of 60 days or more.
- Seriously delinquent loans and leases that have not been classified.
- Unexplained or excessive extensions of due dates or maturity.
- Unrealistic assessments of collectability by management.
- Delinquent loans and leases originated within the past year.

Rationale

Accurate delinquency data enables the board to monitor asset quality, the adequacy of the ALLL and lending standards. An increasing level of delinquencies, as well as failure to collect delinquent amounts, may be a warning sign that economic conditions are deteriorating or that loan and lease underwriting or administration standards are either deficient or not followed.

References

OTS Regulatory Handbook - Thrift Activities, Sections: 219 (Leasing Activities) and 260 (Classification of Assets).

MODIFIED AND RESTRUCTURED LOANS

Report Description

- A summary report of loans modified or restructured during the past quarter, and the total of all modified or restructured loans in the portfolio.
- All loans modified or restructured during the past quarter over $X amount, and those modified or restructured more than once, listed with the following information:
  - Identification number.
  - Loan amount.
  - Classification status.
  - Borrower.
  - Amount of valuation allowance established or any charge-off taken upon restructuring.
  - Previous terms (rate, amortization schedule, collateral).
  - History of compliance with previous terms.
  - Modified or restructured terms.
  - Management s reasons for modifying the loan rather than taking other action.

Warning Signs

- Modifying, extending, re-aging, or restructuring a loan, or advancing funds to pay interest, merely to avoid reporting a delinquency, without strengthening the institution s position.
- Lending additional funds to delinquent or struggling borrowers or their affiliates without acquiring additional safeguards.
- Not classifying modified or restructured loans to struggling borrowers that continue to present more than normal risk of loss.

Rationale

Measures of delinquencies and repossessed assets usually do not reflect modified or restructured loans. Modifying or restructuring non-performing loans can disguise their problem status. Disguising problem loans as a refinancing makes the institution appear stronger. However, it actually increases the risk of loss. Lending additional funds to a struggling borrower may compound the problem. However, there are legitimate reasons for working with troubled borrowers. You should determine whether loan modifications benefit the institution or merely postpone the inevitability of more significant action (such as foreclosure), and thus increase the risk of loss.

Reference

OTS Regulatory Handbook - Thrift Activities, Sections: 240 (Troubled Debt Restructurings) and 260 (Classification of Assets).

CONCENTRATIONS OF CREDIT

Report Description

A list showing concentrations of credit to a single borrower, industry, geographic region, loan type, or collateral type, including significant unsold speculative construction inventory.

Warning Signs

- Increasing exposure to one borrower.
- High or increasing exposure to high-risk obligors.
- Violation of regulatory restrictions on loans-to-one-borrower.
- Increasing concentration of loans:
  - To one industry (for example, energy-related loans).
  - In one geographic region (for example, a factory town).
  - Of one risky loan type (for example, land loans, subprime loans, or high loan-to-value loans).
  - For one collateral type (particularly single-purpose or special-use properties).

Rationale

Diversification of payment sources reduces credit risk. You should be alert to any threat to the institution s profitability or capital adequacy arising from the financial problems experienced by a single borrower, industry, or geographic region. You should relate concentrations to both assets and to capital to recognize how they may effect earnings and solvency if they deteriorate. OTS regulations at 12 C.F.R. 560.93 specifically limit loans to one borrower.

Reference

OTS Regulatory Handbook - Thrift Activities: Section 211 (Loans to One Borrower).

NONTRADITIONAL ASSETS AND COMMITMENTS

Report Description

A chart showing the total of all assets with higher-than-average risk. These include high loan-to-value loans, subprime mortgages, commercial loans, as well as commitments to purchase such assets. The report should show such assets for the following time frames: as of the most recent month-end (compared to the budget), the prior month, and prior year. The report should also have a separate column showing the percent change from the previous month and year.

Warning Sign

A rapid increase in the institution s exposure to nontraditional assets, particularly if the institution has not planned such growth.

Rationale

Rapid growth in nontraditional assets of higher-than-normal risk is not necessarily unsafe and unsound. Rather, new activities and products are unsafe and unsound when they are not thoroughly planned and lack the necessary controls. These controls include written policies and procedures, competent management and staffing, and effective internal review and oversight reports.

Reference

OTS Regulatory Handbook - Thrift Activities Section: 211 (Loans to One Borrower).

NEW LOAN SUMMARY

Report Description

- A summary of new loans generated and loans purchased in the most recent period. The report should be broken down by loan type, number of loans, and total dollar volume, and provide comparisons to budget targets.
- A chart of new loan volume for loan types that represent higher-than-average risk, such as high loan-to-value, subprime, construction, and commercial real estate loans.

The board should review all new loans over $X amount individually. The report should summarize these loans for overall concentration and past performance. Data should provide a comparison with prior periods. In addition, the report should also provide a section that separately summarizes loans generated under special programs and lending policy exceptions.

Warning Signs

- Rapid entry into new types of lending without adequate planning.
- Long-term loans that increase the institution s interest rate risk.
- Loans with a high credit-risk weighting (see the Nontraditional Assets and Commitments section).
- New loans that vary significantly from the institution s business plan.

Rationale

The number and volume of new, good quality loans are measures of the institution s performance. Loan volume will generally ebb and flow with economic conditions; however, there are other reasons for fluctuating loan volume. You should understand the causes of lending fluctuations and shifts in the portfolio.

References

OTS Regulatory Handbook - Thrift Activities: Chapter 200 (Asset Quality).

STATUS OF MAJOR LOANS AND INVESTMENTS

Report Description

A summary of current performance status and financial data. Also, include a narrative description of progress to date on all major loans, subordinate organizations, equity investments, and new business lines or services, with related management plans.

Warning Signs

- Deviations from prior projections.
- Lack of progress in major developments.
- Requests for additional financing.
- Absence of a firm schedule for completion.

Rationale

Whenever the institution commits significant resources to a loan, subordinate organization, equity investment, or new line of business, the board should require ongoing status reports. You should review these reports to evaluate financial performance and guard against loss, waste, and fraud.

Certain loans and investments pose greater risk simply due to their large size, while others (for example, the development of raw land) carry more risk due to the nature of the activities involved. All major loans and investments require thorough planning, knowledgeable management, strong internal controls, prior approval, and close monitoring by the board.

References

OTS Regulatory Handbook - Thrift Activities, Sections: 212 (Real Estate Mortgage and Construction Lending); 214 (Other Commercial Lending); 220 (Investment Securities); 230 (Equity Investments) and 730 (Subordinate Organizations).

SUBORDINATE ORGANIZATION FINANCIAL REPORTS

Report Description

- The report should provide the balance sheet, income statement, and statement of cash flows for each subordinate organization that significantly affects, or has the potential to significantly affect, the parent thrift s operations.
- The report should include a description of all major transactions between the institution and its subordinate organizations, their effect on the institution, and an assessment of their compliance with applicable laws and regulations.
- The report should describe all new activities (such as the sale of nondeposit investment products) that the institution plans to engage in through a subordinate. (Note: OTS requires an advance notice process for new activities.)

Warning Signs

- Financial weaknesses in subordinate organizations (for example, operating losses, declining capital, asset quality problems, or difficulty in meeting obligations).
- Unexplained liquidity demands by subordinate organizations.
- Intercompany transactions that are not conducted at arm s length.
- Delinquent financial reporting from equity investments and subordinate organizations.
- Lack of separate corporate identity and existence for subordinate organizations.

Rationale

Subordinate organizations can significantly affect the operations and overall condition of a thrift. There are two primary types of thrift subordinate organizations: service corporations and operating subsidiaries. Each type of organization is subject to different regulatory standards. Operating subsidiaries can only engage in activities that are permissible for the thrift. Operating subsidiaries may establish lower-tier entities. There are no limits on the amount a thrift may invest in an operating subsidiary, however, the thrift must maintain over 50% ownership of voting shares and effective operating control.

Service corporations may engage in certain additional activities that are not permissible for the parent thrift. A thrift s investment in service corporations cannot exceed a total of 3% of assets, of which any amount over 2% must be community development related. Service corporations may invest in lower-tier entities that are not generally subject to the geographic and ownership restrictions imposed on the parent corporation.

You should be alert to the risk that subordinate organizations may be held to less-rigorous audit, examination, and record-keeping standards. These factors may lead to a greater possibility of unauthorized or inappropriate activities.

The board should closely scrutinize subordinate organizations to prevent any negative financial effect on the parent and guard against potential fraud and abuse. You should be especially watchful to ensure that subordinate organizations maintain their separate corporate identities. If they do not, a court may pierce the corporate veil, and render the parent liable for the actions of the subordinate organization.

You should also note that subordinate organizations can be subject to fair lending and other consumer-compliance laws and regulations. Therefore, you should periodically review the subordinate organization s performance in this area, especially when a subordinate organization s activities would otherwise be part of the parent institution s ordinary operations.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: Part 730 (Subordinate Organizations).

Asset/Liability Management Reports

INVESTMENT SECURITIES PORTFOLIO ANALYSIS

Report Description

- An analysis of the institution s securities transactions and holdings by accounting classification (Held To Maturity, Available For Sale, and Trading) for each type of investment (for example, Treasuries, U.S. agencies, municipals, mortgage derivatives, corporates), for the two most recent TFR reporting periods.
- A maturity distribution of securities held.
- Agency rating by security.
- Exposure to individual counterparties.
- Call date information on all callable securities.

The report should show:

- Book value.
- Market value.
- Portfolio activity during the most recent reporting period (including gains or losses on sales), yield to maturity.
- Rating provided by two of the four recognized rating agencies. (Management should obtain market values from a third party, other than the seller of the investment.)
- Compliance with board-approved limits on investments.
- Margin accounts with the collateral securing the accounts.
- Due-diligence review of new or proposed dealers and a review of any payment and delivery issues.

The report should describe and assess the risks of derivative securities (for example, collateralized mortgage obligations) and structured notes. The report should also explain the purpose of the instrument considering the institution s overall investment or hedging strategy.

The report should include an internal auditor attestation to its accuracy.

If the thrift has a trading account, a separate report should describe the activity in that account.

Warning Signs

- A substantial decline in the market value of an investment.
- A downgrade of an investment by a credit rating service.
- Frequent purchases and sales of securities.
- Purchases of high-risk investments:
  - Investments with high credit risk.
  - Longer-term investments.
  - Complex products that require sophisticated management (such as structured notes and mortgage derivative securities).
  - Thinly traded securities.
- Concentration of investments or trading with one seller.
- Deviations from the authorized investment policy.
- Transactions with disreputable or unknown dealers.
- Failure to review payment/delivery contracts.
- The spread is widening due to thinning liquidity or credit risk tightening.
- Frequent revision of policy limits without adequate rationale.

Rationale

The investment portfolio may contain high levels of counterparty credit risk and interest rate risk. The board should review and discuss any decision to substantially increase these risks and identify potential negative consequences or losses and their context within the portfolio.

Complex securities (which require special expertise to evaluate) and thinly traded securities (which may be difficult to value and liquidate) pose other risks. OTS Thrift Bulletin 13a *Management of Interest Rate Risk, Investment Securities, and Derivatives Activities* provides guidelines for analyzing investments. Additionally, there are risks associated with safekeeping or delivery of an investment. The integrity of dealers and the safety and soundness of transactions are key issues.

References

OTS Regulatory Handbook - Thrift Activities, Sections: 220 (Investment Securities); 230 (Equity Investments); 510 (Asset/Liability Management); 542 (Mortgage-Backed Securities and Mortgage Derivative Products); and 543 (Derivative Instruments).

EXPOSURE TO CHANGES IN INTEREST RATES

Report Description

A comparison of the institution s estimated Net Portfolio Value (NPV) ratios with the limits established by the board of directors for hypothetical interest rate shocks of plus and minus 100, 200, and 300 basis points. Interest rate risk (IRR) reports should be consistent with those prescribed by the board as described in *Risk Measurement, Monitoring, and Control Functions* in Appendix B, part C of OTS Thrift Bulletin 13a *Management of Interest Rate Risk, Investment Securities, and Derivatives Activities.*

The report should provide an evaluation of the institution s standing relative to the industry, based on its Post-Shock NPV Ratio and Sensitivity Measure. For those thrifts with internal models, it should also outline the major differences between the results of the OTS NPV Model and the institution s own interest rate risk model. The report should discuss management s strategy for maintaining the institution s interest rate exposure within the board s limits. The board should list approved derivative instruments (such as swaps, futures, options, or forward commitments) that management can use to limit the institution s interest rate risk.

Warning Signs

- The estimated decline in the institution s NPV in response to hypothetical changes in interest rates exceeds the IRR limits established by the board of directors.
- Management recommends frequent IRR limit changes.
- The institution ranks among the riskier segment of the industry based on its Post-Shock NPV Ratio and Sensitivity Measure.
- Significant variance between OTS reports and management reports.
- An adverse examination Sensitivity rating.

Rationale

The objective of IRR management is to maintain an institution s earnings and net worth within self-imposed parameters over a range of possible interest rate environments. You must be aware of the potential effect of changes in interest rates on the institution s NPV ratios and ensure that the institution operates in compliance with the board s established limits. Comparing the institution to the industry IRR measures distributed quarterly by OTS will provide you with a useful perspective on the institution s level of risk. Board members should review Thrift Bulletin 13a and familiarize themselves with the various measures of IRR produced by OTS.

The measurement of IRR involves the use of assumptions (such as assumed prepayment rates, future interest-rate movements, and changes in the shape of the yield curve). The choice of those assumptions may have a major effect on the results of the measurement. In your discussions with management, you should identify management s critical assumptions used in measuring the institution s IRR and ensure that these assumptions are reasonable.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: 520 (Interest-Rate-Risk Management).

SUMMARY OF HEDGING ACTIVITY

Report Description

A summary of the institution s actions to hedge risk through the use of financial derivatives (such as futures, options, forward commitments, swaps, or mortgage derivatives).

The report should summarize the performance of the hedges. The report should show:

- Hedge positions established or offset during the month, and the realized gains or losses on these positions.
- Open hedge positions, and unrealized gains or losses on these positions.
- Assets or liabilities being hedged, and the changes in the market values of these assets or liabilities.
- Mark-to-market values for all positions each month.
- Transaction costs associated with each hedging position.
- A comparison of hedging activity to policy limits.
- Minutes of recent meetings of the Asset/Liability Management Committee.

Warning Signs

- Deviation from the institution s hedging policies and procedures.
- Management s use of technical jargon rather than clear, simple facts in response to your questions about hedging activities.
- Reliance on the understanding and advice of only one employee to conduct hedging operations.
- Acceptance of hedging recommendations from third parties with little internal analysis or exploration of alternatives.
- Large losses (or gains) on hedging instruments without corresponding gains (or losses) in the items being hedged.
- Micro (asset- or liability-specific) hedges that increase overall enterprise exposure to changes in interest rates.
- Failure to identify the net portfolio (macro) risk rather than only the specific (micro) risk of hedging specific items.
- Disposing of instruments without disposing of the assets or liabilities they are meant to hedge without adequate explanation of the effect of the transaction on the portfolio.

- Excessive transaction costs in relation to the benefits derived from a hedge.
- Many transactions with little change in the net position.
- Market values provided by counterparties with a conflict of interest rather than independent sources.

Rationale

Hedging risk is a very complex activity with significant financial risks. Hedging is properly done only when it reduces risk. Management should monitor and the board should oversee hedging activities to ensure that employees and agents do not engage in unauthorized transactions.

Given the highly technical nature of hedging, institutions often turn to the advice of consultants and brokers. The interests of these parties may not always coincide with the interests of the institution. To prevent abuse, management and the board should always reserve final decision-making authority over hedging transactions and exercise a healthy skepticism of all trades recommended by third parties or counterparties.

Complicated technical responses to the board s questions may indicate a lack of knowledge or an abuse of investment authority. Management s failure to identify the portfolio risk being hedged suggests that they are speculating rather than hedging. Excessive transaction volume with little benefit or change in the net position may indicate account churning or other abuses.

The accounting requirements for hedging activities are complex and evolving. You should seek an explanation from management for the accounting treatment used for each significant hedging activity. A micro-hedging analysis that matches gains and losses on hedging instruments with gains and losses on the hedged instruments should complement, rather than distract from, the intended macro (whole enterprise) approach to hedging.

You should also ensure that management effectively controls any hedging operations. A lapse of control may be indicated when micro hedges are not terminated simultaneously with the underlying assets or liabilities. Also, profits or losses arising from the disposal of hedging instruments without offsetting gains or losses in the accounts being hedged indicate that the hedges did not work as planned.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: 541 (Hedging).

MORTGAGE BANKING

Report Description

Detailed information on the mortgages in the pipeline and warehouse, as well as associated hedge positions. Examples include the warehouse aging report and the report on assets priced at the lower of cost or market (LOCOM). The reports should project how those positions are likely to change in the short term (because of fallout, changes in interest rates, or other reasons).

If there is a substantial volume of mortgages intended for sale in the production process relative to capital, the thrift should conduct a stress test estimating the effect of extreme (200 basis points or more) interest rate movements on the pipeline and warehouse. The stress test should adjust for actual hedged positions. Compare the resulting estimates to any maximum limits established by the board.

Management should provide you with current annual financial statements demonstrating the financial viability of counterparties to transactions.

Warning Signs

- Volatility in earnings attributable to secondary marketing sales.
- Dramatic increases in the volume of pair-off fees beyond projected limits.
- Pipeline and warehouse exposure exceeding any board-established limits.
- Volume-based compensation arrangements with inadequate safeguards.
- Minimal management oversight of mortgage banking functions.
- An accumulation of unsalable loans.

Rationale

A thrift with active secondary marketing operations must be able to explicitly identify the level of risk exposure inherent in its pipeline and warehouse. This includes the ability to develop reasonable estimates for identifying expected pipeline fallout rates. Additionally, the institution must have the management expertise to design and maintain an appropriate secondary marketing hedge program. All of these items should be explicitly addressed in a written, board-approved, secondary marketing policy. The board is responsible for monitoring adherence to this policy on a regular basis.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: 570 (Mortgage Banking).

STATEMENT OF CASH FLOW AND LIQUIDITY RISK

Report Description

- A summary of the sources and uses of cash for the most recent quarter and prior quarter, along with forecasts of planned cash flows for each of the next two quarters.
- The weighted average maturity of investments held for liquidity purposes reported with current market rates of return for short-term investments.

Warning Signs

- Failure to diversify funding sources.
- Increased reliance on volatile funding sources (such as wholesale deposits) or nontraditional funding sources (such as asset sales) to meet funding obligations.
- Increased concentration of cash and cash equivalents in a single institution.
- Significant variations in cash flows from period to period.
- Significant unexplained changes in the weighted average maturity of the liquidity portfolio.
- Investments in unfamiliar, nontraditional, or thinly traded assets.
- Failure to meet the institution s regulatory liquidity requirement.

Rationale

Adequate liquidity ensures an institution s ability to meet its obligations. A review of an institution s past and projected cash flow will identify costly sources and improper uses of funds, thereby highlighting potential funding problems. Liquidity problems generally become apparent when the institution begins relying more heavily on wholesale deposits and other short-term borrowings to meet its cash needs.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: 530 (Cash Flow and Liquidity Management).

SAVINGS AND CORE DEPOSIT ANALYSIS

Report Description

A chart of savings deposits by type as of the most recent quarter, prior quarter, and prior year. (Deposits can be further broken down by region and branch office.)

The report should include:

- Average balances for each type of deposit.
- List of rates paid by the institution and its competitors.
- List of large cash transactions.

Warning Signs

- Shift from retail (core) deposits to wholesale deposits (such as brokered deposits).
- Shifts in balances among types of accounts.
- Shift from longer-term to shorter-term deposits.
- Large deposit inflows or outflows.
- Significant changes in transaction volume, average balances, or average maturity.

Rationale

Deposits are the primary source of funds for most thrift institutions. Core deposits are an institution s most stable source of funds and, for many thrifts, constitute the largest component of its franchise value. Deterioration of an institution s deposits can be an early warning sign of future funding or earnings problems. It could indicate that the institution is providing inferior service to its depositors or improperly pricing its deposit products.

Management and the board should analyze the causes of significant changes in deposits and take appropriate corrective action when necessary. The board should also determine whether the level of brokered deposits is appropriate given regulatory constraints. You may include deposit analysis in your CRA strategy and delineation of your community.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: 560 (Deposits/Borrowed Funds).

Internal Audit and Management Review Reports

INTERNAL AUDIT REPORTS

Report Description

Periodic reports from the internal auditor indicating the:

- Extent of the institution s compliance with, and the effectiveness of, its policies and procedures.
- Reliability of the information produced by the institution, including reports to the OTS, the SEC, the board, and critical management reports.
- Institution s compliance with, and the adequacy of, its internal controls.
- Extent to which the institution s assets are protected against loss.
- Recommended corrective actions and improvements in operations.
- Progress made in completing the internal audit schedule.

Warning Signs

- Negative findings, particularly those that persist over time.
- Findings substantially different from those of external auditors or examiners.
- Management s failure to correct cited deficiencies.
- Delays in completing audits.
- Continual revision of the internal audit plan.
- Reporting relationships that compromise the independence of auditors.

Rationale

Outside directors have a limited amount of time to devote to oversight of the institution, and it is essential that they receive unbiased information about the institution s performance. On the other hand, it is unrealistic to expect management to be unbiased in reporting its deficiencies. Internal audit reports provide the board with impartial information about the institution s operations. To ensure impartiality, the internal auditor should report directly to the board or a board committee (such as the audit committee) which should set audit staff compensation. Also, management should be present, only at the request of the board or committee, when the internal auditor presents findings.

A small institution that may not be able to afford a separate internal audit function should provide for internal audits by other means such as:

- Hiring an independent auditor.
- Establishing a dual compliance officer/ internal auditor function.
- Periodically requiring certain departments to review the work of other departments.
- Performing directors audits of critical areas.

OTS and the FDIC require all insured depository institutions with assets of $500 million or more to engage an independent audit. (12 C.F.R. 562.4(b)(2) and 363.3) Savings associations with a CAMELS rating of 3, 4, or 5 must also engage an external audit, regardless of size. (12 C.F.R. 562.4(b)(i)) See page 49.

An internal audit function is especially important for eligible institutions that have chosen to omit an annual external audit. An institution s internal audit function should be appropriate to the size of the institution and the nature, scope, and risk of its operations.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: 355 (Internal Audit);
FDIC Regulations Part 363. Additional audit related publications are listed at the end of this guide.

INTERNAL LOAN REVIEW

Report Description

- An independent report, generated either internally or externally, showing the extent of management s adherence to board-approved lending policies, underwriting standards, and loan-servicing procedures.
- An independent report on asset criticisms.

The report should be based on a review of samples of the entire loan portfolio, not just new or large loans. To ensure objectivity, the report should be prepared by an individual or group that is completely independent of the lending function. The report should also assess the accuracy and controls over loan servicing, particularly rate and payment adjustments, and escrow accounts.

Warning Signs

- Significant deviations from lending policies or underwriting standards established by the board.
- Significant discrepancies between reports produced by the internal loan review function and regulators or auditors.
- Loan purchases that do not conform to the institution s underwriting standards.
- A significant number or ongoing pattern of loan servicing errors.

Rationale

An independent loan review function serves as an early warning system for poor loan administration and problem loans. This vital function assesses the adequacy of and adherence to internal loan policies and procedures and loan documentation requirements. It identifies potential problem loans, and provides management and directors with an objective assessment of the overall quality of the loan portfolio. The review function should also encompass loan servicing. Servicing errors may expose the institution to significant financial liability for restitution and penalties.

References

OTS Regulatory Handbook - Thrift Activities, Section: 200 Asset Quality.

REGULATORY REQUIREMENTS SAFETY AND SOUNDNESS

Report Description

A periodic review of, and follow-up on, board-approved policies and procedures designed to promote the safe and sound operation of the institution and ensure compliance with regulatory requirements (including 12 C.F.R. Part 570, Standards for Safety and Soundness).

You may assign these reviews to the internal audit function, a compliance officer, or another designated person as long as the board reviews and approves the results at least annually.

Warning Signs

- Absence of written policies.
- Policies or procedures that are not followed.
- Poorly designed policies or procedures that do not work.
- Losses arising from poor underwriting or ineffective management of interest rate risk.
- Entry into new lending or investment areas without formal policies.
- Transactions with officers or directors that violate established ethics policies or regulatory guidelines.
- Regulatory deficiencies cited in examination reports.

Rationale

Every insured institution must operate in a safe and sound manner and comply with applicable laws and regulations. To fulfill this requirement, the board must adopt policies and procedures in all significant areas of the institution s operations. At least annually, the board should review policies and procedures for completeness and compliance with laws, regulations, and other standards.

The following list shows some important areas that OTS has addressed regarding safe and sound operation of an institution:

- Affiliate transactions.
- Appraisal policy and:
  - Maximum loan-to-value for real estate loans.
  - Environmental risk.
  - Commercial loans.

- Asset classification.
- Asset/liability management.
- Audit.
- Business plan or budget.
- Capital adequacy.
- Interest rate risk.
- Investments.
  - Below-investment-grade corporate debt securities.
  - Mortgage derivative products and mortgage swaps.
  - Structured notes.
- Loan underwriting policies and procedures.
  - Loans to insiders.
  - Loans to one borrower.
- Nondeposit investment product sales.
- Profitability planning and budgeting.

References

OTS Regulatory Handbook - Thrift Activities, Section: 310 (Oversight by the Board of Directors).

Interagency Guidelines Establishing Standards for Safety and Soundness (12 C.F.R. Part 570).

REGULATORY REQUIREMENTS COMPLIANCE

Report Description

A periodic review of the effectiveness of board-approved policies and procedures designed to ensure compliance with anti-discrimination, consumer-protection, money laundering, and certain other public interest regulations.

You may assign these reviews to the internal audit function, a compliance officer, or another designated person as long as the board reviews the results periodically.

Warning Signs

- Absence of written policies or procedures to ensure staff training and compliance.
- Policies or procedures that are not followed.
- Policies or procedures that are followed but do not produce the desired compliance results.
- Staff who are unaware of, or inexperienced in, compliance issues and requirements.
- Community protests or legal challenges.
- A large volume, or an emerging pattern, of consumer complaints against the institution.
- Lawsuits (including class action suits) or investigations by government agencies.
- Compliance-related deficiencies cited in examination reports, regulatory correspondence, or enforcement actions.

Rationale

This heading includes consumer protection laws including: consumer compliance statutes, such as the Truth-in-Lending Act and Electronic Funds Transfer Act; anti-discrimination laws, such as the Fair Housing Act and Equal Credit Opportunity Act; and public-interest laws, such as the Bank Secrecy Act. Such statutes and related regulations affect nearly every area of an institution s operations and impose certain obligations upon an institution for consumer protection and national public policy reasons. Compliance with these requirements is good business from both a public-relations and financial standpoint. Violation of these laws and regulations can expose an institution to government sanctions, costly private legal actions, or both. In addition, noncompliance may result in public protests or adverse publicity.

Formal policies on the following topics are recommended or required by regulations:

- Equal Credit Opportunity and Fair Housing Acts.
- Bank Protection Act.

- Bank Secrecy Act.
- Expedited Funds Availability Act.
- Nondiscriminatory loan underwriting standards.
- Community Reinvestment Act.

This is not an exhaustive list of required compliance policies and procedures. The number and detail of written guidelines may vary depending on an institution s size, management structure, product mix, and compliance record. An OTS booklet, Compliance: A Self Assessment Guide, encourages development of policies and procedures for consumer-protection and compliance-related programs.

Reference

OTS Regulatory Handbook - Compliance Activities.

SECURITY REPORTS

Report Description

- Annual report from the board-approved security officer regarding the effectiveness of the institution s security program, as required by the Bank Protection Act.
- Regular reports regarding crimes and losses, such as from robberies, burglaries, and embezzlements, including Suspicious Activity Reports filed by the institution.

Warning Signs

- Increasing or repeated instances of robberies, burglaries, or embezzlements.
- Staff or management awareness of, or collusion in, possible criminal activity.

Rationale

Crimes against an institution can cause significant financial loss, expose employees and customers to harm, and result in liability exposure and additional expense. While it may be impossible to eliminate criminal activity completely, an institution can take effective steps to reduce losses and limit the possibility of recurrence. Increasing or repeated instances of criminal activity may indicate that the institution has failed to implement adequate safeguards.

Reference

OTS Regulatory Handbook - Compliance Activities, Section: 405 (Bank Protection Act).

REGULATORY REQUIREMENTS INFORMATION TECHNOLOGY

Report Description

- A periodic review of, and follow-up on, the board-approved policies and procedures designed to promote a safe, sound, and secure infrastructure for company-wide data integrity, internal controls, and security of information technology for safeguarding both assets and records. The board can assign these reviews to the internal audit staff, a compliance officer, or another designated person provided the board reviews and approves the results at least annually.
- Annual management report on the adequacy of information technology, including in-house and outside computer services, internet web site security, and delivery of current and planned products and services. Reports should show the condition of current information systems and technology in relation to budget objectives.

Warning Signs

- Policies and procedures are not followed.
- Policies and procedures are poorly designed or proving ineffective.
- Software procurement and installation activities do not conform to sound principles found in project management and systems development methodologies.
- Contracts for acquired computing resources are not in the best interests of the institution.
- Management lacks knowledge concerning the development, operation, and control of information technology.

Rationale

Financial institutions require accurate and timely information for their operation as well as up-to-date systems such as internet web sites for delivery of competitive products and services. Information systems handle most of an institution s information concerning customer and corporate activities. The adoption of information-systems-related policies and procedures by the board will promote the development of reliable information systems.

Reference

Federal Financial Institutions Examination Council (FFIEC) - Information Systems Examination Handbook.
OTS Regulatory Handbook - Thrift Activities, Section: 341 (Information Technology).
OTS CEO Memorandums: 90: Interagency Guidance on Electronic Financial Services and Consumer Compliance**; 97:** Policy Statement on Privacy and Accuracy of Personal Customer Information.

MAJOR DEFICIENCY FOLLOW-UP

Report Description

A summary of management s progress in correcting major weaknesses in the institution s operations identified through the internal and external audit functions, regulatory examinations, or agreements, orders, and enforcement actions.

Information should include a description of the weakness, a schedule for its correction, assignment of responsibility to a particular employee, assessment of appropriate action (such as a compliance plan) and a schedule for follow-up review by the board or a board committee. The agendas of future board (or committee) meetings should include scheduled dates for follow-up review. For deficiencies involving vendors and others not under control of the institution, you should have contingency plans available to provide corrections to your satisfaction.

Warning Signs

- Any indication that a major deficiency is not corrected.
- Failure to adhere to a deficiency-correction schedule.
- Repeated criticism by examiners, external auditors, or internal auditors.

Rationale

Examination reports, external audit reports, internal audit reports, internal loan review reports, consumer complaints, and periodic financial data may reveal significant weaknesses in the institution s operations. Directors should develop a procedure to ensure that management takes immediate corrective action to remedy weaknesses.

References

OTS Regulatory Handbook - Thrift Activities, Sections: 310 (Oversight by the Board of Directors) and 320 (Meetings with the Board of Directors).

External Reports

EXTERNAL AUDIT REPORTS AND MANAGEMENT LETTERS

Report Description

- Independent annual audit report and accompanying management letter.
- Minutes of the Audit Committee s meeting with the external auditors.

Warning Signs

- A qualified, adverse, or omitted opinion.
- Internal control deficiencies, particularly deficiencies not identified by the internal audit and those that are recurring.
- Significant changes in audit expenses.
- Significant disagreements between management and auditors.
- Late audit reports (more than 90 days after fiscal year-end).

Rationale

The financial community relies on audit reports to gauge the financial condition of the institution. Audit reports may identify unknown losses and deficiencies in internal controls and records. While all institutions are encouraged to obtain an independent audit, institutions with a CAMELS rating of 3, 4, or 5, and those with $500 million or more in assets, are required by FDIC regulation to have an independent audit.

An independent audit provides an objective look at the performance of the institution. You should pay close attention to factors that could impede the audit independence or access to information. The auditors should be experienced in auditing thrift operations.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: 350 (Independent Audit).

EXAMINATION REPORTS AND SUPERVISORY CORRESPONDENCE

Report Description

- Reports of examination for safety and soundness, compliance, information technology, and trust operations.
- A description of the institution s corrective action taken in response to deficiencies cited in examination reports.
- Summaries of new or amended laws and regulations and plans for compliance.

Warning Signs

- A composite (e.g., CAMELS) rating of 3, 4, or 5 or a community Reinvestment Act (CRA) rating of Unsatisfactory or Needs to Improve.
- Informal or formal enforcement action (such as a supervisory agreement, cease and desist order).
- Any corrective actions required in the report of examination or other supervisory correspondence.
- Significant violations of safe and sound operating practices or regulatory violations, particularly if recurring.
- Significant disagreements between management and the examiners.
- Protracted disputes with regulators (for example, receipt of a second supervisory letter).
- Significant divergence from the institution s own operating policies and procedures.
- Regulatory asset classifications that vary materially from the institution s own internally generated classifications.
- Management s failure to correct cited deficiencies.
- Failure to promptly disclose supervisory correspondence to outside directors.
- An increase in consumer complaints filed with regulatory agencies, and related correspondence.

Rationale

Examination reports and related correspondence identify the major concerns of regulators. The examination rating places the institution s performance in perspective and reflects its compliance with laws and regulations and overall operating condition. In general, any adverse comment that surprises you indicates that the institution s internal systems are not functioning properly.

In addition to the examination report on safety-and-soundness, the board will also receive reports on consumer compliance, information technology, and (if applicable) holding company and trust operations. These reports may disclose regulatory violations or operational weaknesses that pose significant risk to the institution (for example, identified lending discrimination). The board should follow up to ensure that reported violations or deficiencies are corrected in a timely manner.

References

OTS Regulatory Handbook - Thrift Activities, Sections: 70 (Overall Conclusions) and 71 (CAMELS Ratings)

Compliance Activities, Sections: 125 (General Report Guidelines) and 130 (Assignment of Ratings)

Holding Companies

Other Reports

BOARD MINUTES AND COMMITTEE REPORTS

Report Description

- Minutes of the previous meeting of the full board.
- Reports or minutes of all committee meetings since the last meeting of the full board.

Warning Signs

- Minutes that are incomplete or late, or that do not accurately represent the substance of discussions particularly dissenting opinions and votes.
- Failure to use a pre-numbered minute book that discourages alteration of the minutes.
- Failure to review and approve actions that are required by regulation.
- Board ratification of past actions that normally require prior board approval.

Rationale

Minutes are the official record of the board s actions. The minutes should identify the information the board reviewed and disclose the deliberations of the board members in reaching a decision on any major strategic or operating policies and procedures.

In general, the minutes should indicate that the board is reviewing operations, assessing the adequacy of existing policies and procedures, and making revisions or modifications when appropriate.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: 310 (Oversight by the Board of Directors).

SIGNIFICANT CORRESPONDENCE

Report Description

A summary of all correspondence addressed to the board or management that:

- Either will, or could, have a material affect on the institution s operations.
- Has been sent by a regulatory authority and is addressed to or intended for the board.
- Is otherwise worthy of the board s attention.

Warning Signs

- Delayed access by the board to correspondence that could materially affect the institution.
- Indications that the board has not reviewed and considered the significant correspondence report.

Rationale

The board must maintain a close working relationship with management to ensure that it is fully informed of the institution s activities and has access to significant correspondence concerning operational or financial problems.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: 310 (Oversight by the Board of Directors).

REPORT OF COUNSEL

Report Description

A report from the institution s legal counsel concerning all items within the counsel s scope of duty that could have a material affect on the institution (such as litigation, threatened litigation or criminal proceedings, and environmental concerns connected with the institution s loan portfolio). The report should include an estimate of the potential financial effect related to these items and the time projected to resolve them.

The report should include information about any mediation, agreement, or settlement outside the court system, such as agreements with government agencies or regulatory bodies. The report should follow-up on any significant previous actions, agreements, or settlements.

Warning Signs

- Reports that are cursory, biased, or inadequate.
- Increasing levels of litigation, threats of litigation, or settlements in lieu of litigation.
- Litigation or settlements that impose heavy costs.

Rationale

An institution s counsel becomes involved in serious matters affecting the institution. Directors should receive summaries of all information developed by counsel that could have a material effect on the institution, including issues raised by regulators through supervision, examination, and application processing.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: 370 (Enforcement Actions).

TRANSACTIONS WITH AFFILIATES

Report Description

A summary of all transactions (such as loans, the purchase or sale of assets or service contracts) between the institution (or its subsidiaries) and its affiliates or an unrelated third party if an affiliate derives a benefit.

The report should identify:

- The terms of the transaction, including evidence that the transaction is on market terms.
- Whether the board was fully informed of the transaction and approved it (if necessary) after a full discussion, with any interested party abstaining.
- Whether the institution complied with all applicable laws and regulations governing the transaction, including making any required reports or providing prior written notification to the OTS.

Warning Signs

- Transactions with affiliates that are not conducted at arm s length.
- Conflicts of interest and lack of separate corporate identity.
- A difference between the form and substance of a transaction.
- Lack of disclosure to or (when required) approval by the board of directors.
- Regulatory violations.

Rationale

OTS Regulations 12 C.F.R. 563.41 and 563.42 contain detailed guidelines and restrictions related to a thrift s transactions with affiliates. Section 563.41 contains definitions of important terms such as affiliate, covered transaction, and low-quality asset, as well as the collateral requirements for certain affiliate transactions.

Sections 563.41 and 563.42 list the various recordkeeping and reporting requirements that apply to affiliate transactions. A review of such records and reports, regardless of whether the regulations specifically require board review or action, reveals whether the thrift has achieved regulatory compliance. It also identifies concerns that management should address. These records and reports include information on each transaction involving an affiliate (or an unrelated third party when an affiliate derives a benefit), including the:

- Identity of the affiliate.
- Type and amount of transactions.
- Collateral involved.
- Information that documents compliance with regulatory requirements.

Undue pressure on an institution to engage in transactions with an affiliate, or failure to maintain separate corporate identity, may subject the institution to significant risk. This risk may include liability for the affiliate s obligations.

References

OTS Regulatory Handbook - Thrift Activities, Section: 380 (Transactions With Affiliates and Insiders).

TRANSACTIONS WITH INSIDERS

Report Description

- The identity of all insiders of the institution or its affiliates, including their related interests.
- The identity of any executive officer of the thrift who becomes indebted to any other bank or thrift in an amount that exceeds the lending limits.
- All extensions of credit by the institution or its subsidiaries to the institution s own or its affiliate s insiders, including the amount and terms of each extension of credit.
- All extensions of credit to the thrift s executive officers and principal shareholders by correspondent banks.
- All transactions occurring between the thrift and its insiders, including any transfers of property or provisions of services.
- Each report should indicate:
  - Whether the insider obtained terms more favorable than those available to the general public or pursuant to a widely available employee benefit plan.
  - Whether the transaction creates an actual or apparent conflict of interest.
  - Whether the board was fully informed of the transaction and approved it (if necessary) after a full discussion with the interested party providing full disclosure of his or her interest, refraining from participation in the board s discussion, and abstaining from voting on the transaction.
  - Whether the institution complied with all applicable laws and regulations governing the transaction, including any individual and aggregate dollar limitations and making any required reports.

Warning Signs

- Extensions of credit to insiders that are not conducted at arm s length.
- Conflicts of interest.
- Lack of disclosure to or (when required) approval by the board of directors.
- Regulatory violations.
- Any insider benefiting, directly or indirectly, from a transaction (such as loans, sales of real or personal property or services) with a third party that deals with the thrift.

Rationale

OTS Regulation 563.43 incorporates by reference the Federal Reserve Board s Regulation O (12 C.F.R. Part 215) which contains detailed guidelines and restrictions related to an institution s extensions of credit to its own or an affiliate s insiders. Section 215.2 contains the definitions of important terms such as affiliate, director, executive officer, insider, principal shareholder, and related interest.

Regulation O sets the various recordkeeping and reporting requirements for extensions of credit involving insiders. A review of such records and reports, regardless of whether the regulations specifically require such action, should reveal whether regulatory compliance has been achieved.

Abuse by insiders undermines their ability to lead an institution effectively. Eventually, abuse leads to an erosion of public confidence in the thrift.

References

OTS Regulatory Handbook - Thrift Activities, Sections: 310 (Oversight by the Board of Directors); 360 (Fraud/Insider Abuse); 380 (Transactions with Affiliates and Insiders; and 730 (Subordinate Organizations).

ETHICS POLICY

Report Description

- Data showing compliance or noncompliance with the institution s code of ethics.

Warning Signs

- Absence of written policies.
- Noncompliance with the institution s ethics policy.
- Lack of disclosure to, or (when required) approval by, the board of directors.
- Apparent or actual conflicts of interest.
- Political contributions or loans with special rates and terms.

Rationale

We encourage every institution to adopt a code of ethics. Generally, a code of ethics should address these points:

- Conflicts of interest.
- Confidentiality of thrift information.
- Standards for reporting personal transactions that may affect thrift performance.
- Guidelines on outside activities.
- Protection of institution property.
- Compliance with laws and regulations.
- Procedures for ensuring compliance with the code.

Directors and management should not:

- Use their position to profit personally, directly or indirectly, at the expense of the institution.
- Solicit or accept preferential treatment from the institution or its affiliates.
- Engage in any transaction that would give the appearance of a conflict of interest, preferential treatment, or usurpation of corporate opportunity.
- Use their positions to solicit preferential treatment for an affiliate or related interest.

The Federal Election Commission s rules and regulations prohibit financial institutions from making political contributions or paying political expenditures under specific circumstances. An institution may make a loan to a political candidate or committee only if the loan is granted at the institution s usual and customary rates, terms, and conditions.

The Foreign Corrupt Practices Act includes requirements for books, records, and internal accounting controls, as well as prohibitions on payments to foreign officials and political parties.

References

OTS Regulatory Handbook - Thrift Activities, Sections: 360 (Fraud/Insider Abuse) and 310 (Oversight by the Board of Directors).

MANAGEMENT EVALUATION AND PERSONNEL REPORTS

Report Description

- The board or a committee should prepare a periodic (at least annual) evaluation of management s performance and compensation and include a report on the evaluation in the minutes.
- Reports on employee turnover, salary adjustments, promotions, benefits adjustments, new hires, and compliance with the nondiscriminatory hiring policy (Equal Employment Opportunity).

Reports should also include a comparison of compensation and benefits of peers at other similar institutions.

Warning Signs

- Unsatisfactory performance of management.
- Adverse comments regarding management in examination reports.
- Excessive staff turnover.
- Increasing complaints or litigation related to equal employment opportunity, sexual harassment, or other personnel issues.
- Employee profile mix at various levels of the organization that differs significantly from that of the community employment base.

Rationale

Capable management and staff are the most important factors contributing to the success of an institution. The board s most important responsibility is the selection and oversight of top management. The board may shy away from its responsibility to evaluate top management, particularly when personal ties have developed. However, without feedback from the board, incompetent management may feel that their performance is satisfactory, and competent management may wonder whether their performance is appreciated. Either situation may detract from the overall performance of the institution. The board should reward good performance but should prevent the payment of compensation, fees, and benefits that are excessive or that could lead to financial loss to the institution.

Regulators generally require the board of directors to review annually all employment contracts and compensation arrangements for senior executive officers and directors, and to document their justification and approval in the board minutes. Directors who have a personal interest in a compensation arrangement are prohibited from participating in the discussion or voting on the proposal. Employment contracts may only be renewed or extended upon explicit review and approval by the board. To ensure protection of the thrift, legal counsel, independent of senior management, should prepare employment contracts for the thrift. Compensation arrangements of problem institutions are subject to prior regulatory approval requirements.

An equal employment opportunity policy contributes to retention of qualified employees, reduces the institution s exposure to litigation, and enhances a positive public image. The board should strive to ensure that the workplace is free from discrimination on any prohibited basis, sexual harassment, and other illegal practices that diminish productivity and detract from the institution s reputation.

References

OTS Regulatory Bulletin 27a, Executive Compensation, dated March 5, 1993;

OTS Regulatory Handbook - Thrift Activities, Section: 310 (Oversight by the Board of Directors).

ECONOMIC ANALYSIS

Report Description

A periodic discussion and analysis of economic conditions in all geographic areas in which the institution has significant operations. The analysis should include:

- Information on demographics, wages, and unemployment trends.
- The local housing market (supply, demand, and price movements).
- Office vacancies, and other relevant factors.
- Information on national economic issues that affect local conditions.
- Identification and assessment of the institution s principal competitors.
- Summary and analysis of political, accounting, or regulatory issues that could have a significant effect on the institution s operations, earnings, or products.
- Data from reliable sources such as national business periodicals, and publications of the Federal Reserve System, the Department of Labor Bureau of Labor Statistics, and the Department of Commerce Bureau of Economic Analysis.

Warning Signs

- Boundless optimism.
- Softening local economy.
- Over-building.
- Rising interest rates or increased rate volatility.

Rationale

An institution s performance will usually mirror to some extent the performance of the economy in the areas that it serves. You should review economic analysis as part of your review of business plan assumptions. Early recognition of changes in the local economy provides advance notice of new opportunities (if the economy is expanding) or a potential deterioration of asset quality (if the economy is contracting). Economic and demographic analyses are also essential for a successful CRA strategy.

Certain political and regulatory issues can also substantially affect an institution s operations and earnings. The board should review a summary and analysis of such issues and respond accordingly.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: 310 (Oversight by the Board of Directors).

PRODUCT PRICING

Report Description

Information on the pricing and fee structure of all major products (such as mortgage loans and deposit accounts) offered by the institution. This includes rates and yields offered by the institution compared to rates and yields offered by a sample of key competitors.

Warning Signs

- Rates or terms on deposits that differ substantially from those offered by competitors or exceed the cost of other sources of funds with the same maturity.
- Rates or terms on loans that do not adequately compensate the institution for the amount of actual risk involved (including credit risk, liquidity risk, interest rate risk).
- Rates or terms on new asset and liability products with similar maturities that do not result in a profitable spread.
- Failure to factor in all costs (for example, operating expenses) associated with a product.

Rationale

Reasonable, supportable product pricing is essential for profitability. Competitive pressures can lead to unsound pricing decisions. Directors should know and understand the institution s product pricing relative to market rates and the prices of the competition. Above- or below-market rates can affect loan volume, interest rate risk, liquidity, earnings, and retention of core deposits. Insupportable rate structures can expose the institution to government review, private legal action, or both.

References

OTS Regulatory Handbook - Thrift Activities, Sections: 510 (Asset/Liability Management) and 560 (Deposits and Borrowed Funds).

NEW BUSINESS ACTIVITIES

Report Description

A summary of the institution s proposed new major activities and lines of business.

Follow-up reports should be presented on activities commenced recently (a comparison of actual results to prior projections and the budget).

Warning Signs

- Entry into a new activity or business venture without proper:
  - Management.
  - Policies and procedures.
  - Training.
  - Internal controls.
  - Independent reviews.
  - Supporting capital.
  - Information systems support.
  - Integration into management accounting.
- A new activity or business venture deviating from the budget.

Rationale

Entry into new business activities such as sales of noninsured products or electronic banking without adequate planning, resources, and oversight can be a major cause of losses. The board should determine whether new activities may be prohibited by law, entail excessive risk, or involve conflicts of interest. A good cost accounting system is needed to assess performance of a new activity or line of business.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: 330 (Management Assessment).

MARKETING

Report Description

- Information on major and special advertising campaigns and other programs designed to make potential customers aware of the institution and its products.
- An analysis of the institution s market share for the major products it offers and the institution s success in reaching all segments of its community.

Warning Signs

- Excessive marketing costs without the desired results.
- Marketing efforts that present a negative or potentially damaging image of the institution.
- Marketing efforts directed outside of the institution s community or only to the higher-income segments of the community.
- Marketing strategies that use language or images that exclude members of protected groups.
- Lack of success in attracting members of protected groups as credit applicants and customers.
- Unintended or unforeseen decline in market share.

Rationale

Given the increasing competitiveness of the financial services industry, it is essential that your institution attempt to distinguish itself from competitors. You should keep informed of the institution s marketing efforts, and the market share of its major products. To the extent possible, each new marketing program should have a measurable objective that you can compare with the actual results.

Marketing should be directed to all segments of society served within the institution s community. Inappropriate lack of credit to members of protected groups may indicate discriminatory practices in product marketing and delivery systems.

Reference

OTS Regulatory Handbook - Compliance Activities.

INSURANCE

Report Description

Information on the insurance policies obtained by the institution, including rates, coverages, and deductible amounts.

The report should include information on all major insurance policies, including fire and extended coverage, fidelity blanket bonds, and directors and officers liability.

Warning Signs

- An increasing number of claims or recurring claims.
- Cancellation of insurance by the institution or the insurer.
- A significant increase in rates or decrease in coverage by the insurer.
- A significant increase in deductibles.
- A significant increase in exclusions from coverage.
- Significant claims against the institution that are not covered by insurance.

Rationale

Adequate insurance coverage is a critical component of any well-run business. At least annually, the board should review the institution s major insurance policies to ensure that they provide adequate coverage at a reasonable price.

Reference

OTS Regulatory Handbook - Thrift Activities, Section: 630 (Insurance).

ADDITIONAL REFERENCE PUBLICATIONS

We encourage you to routinely access the OTS web site at http://www.ots.treas.gov, or contact your OTS regional office for more information and background materials. The following is a list of available references that contain information of general interest to directors:

AICPA Audit & Accounting Guide, Banks and Savings Institutions, Revised Edition, American Institute of Certified Public Accountants, 1996. Phone: (212) 596-6200, Internet: http://www.aicpa.org.

The Audit Committee Handbook, America s Community Bankers, 1995. Phone: (202) 857-3100 Fax: (202) 659-1134, Internet: http://www.acbankers.org.

Bank Founder s Guidebook, SNL Securities, LC, 1999. Phone: (804) 977-1600, FAX: (804) 977-4466, Internet: http://www.snl.com.

The Banker s Resource Book, (catalog), American Bankers Association. Phone: (800) 338-0626, Internet: http://www.aba.com.

The Board Member s Manual, A Guide for Financial Institution Directors, America s Community Bankers, 1995. Phone: (202) 857-3100 Fax: (202) 659-1134, Internet: http://www.acbankers.org.

The Board of Directors, A Guide for Enhancing Your Effectiveness, Stevenson, T. Herbert: Bank Administration Institute, 1990. Reprint 1996/97. Phone: (800) 322-8552, Internet: http://www.bai.org.

Community Bank Director, (video tape series), ICBA Education Department. Phone: (800) 422-7285, Internet: http://www.icba.org

Corporate Director s Guidebook: 1994 Edition, The Business Lawyer, American Bar Association, May 1994. Phone: (312) 988-5000, Internet: http://www.abanet.org

Directors Responsibilities Guide, Office of Thrift Supervision, U.S. Department of the Treasury, 1999. Phone: (301) 645-6264, Internet: http://www.ots.treas.gov.

The Director s Book, Office of the Comptroller of the Currency, U.S. Department of the Treasury, 1997. Phone: (202) 874-4700, Internet: http://www.occ.treas.gov.

Directors & Trustees Digest, (monthly), America s Community Bankers. Phone: (202) 857-3100 Fax: (202) 659-1134, Internet: http://www.acbankers.org.

Executive Compensation Review, Thrift Institutions, (annual), SNL Securities. Phone: (804) 977-1600, FAX: (804) 977-4466, Internet: http://www.snl.com.

Executive Management Guide to an Effective Board of Directors, Stevenson, T. Herbert: Bank Administration Institute, 1990. Reprint 1996/97. Phone: (800) 322-8552, Internet: http://www.bai.org.

Glossary of Selected Terms, Office of Thrift Supervision, U.S. Department of the Treasury, Phone: (301) 645-6264, Internet: http://www.ots.treas.gov.

Guidance Concerning Contingency Planning in Connection With Year 2000 Readiness, Interagency Statement May 13, 1998, Federal Financial Institutions Examination Council. Phone: (202) 634-6520, Internet: http://www.ffiec.gov.

The Guidebook to Board Committees, Marshall, William T.: America s Community Bankers, 1998, Phone (202) 857-3100, Internet: http://www.acbankers.org.

Guidelines for Financial Institution Directors, FIL-123-97 Federal Deposit Insurance Corporation, 1997. Phone (800) 276-6003, Internet: http://www.fdic.gov.

Guidelines for Legal Advice to Financial Institution Directors, FIL-15-98 Federal Deposit Insurance Corporation, 1998. Phone (800) 276-6003, Internet: http://www.fdic.gov.

The Illustrated Guide to Preparing Director Information Reports, America s Community Bankers, 1990. Phone: (202) 857-3100 Fax: (202) 659-1134, Internet: http://www.acbankers.org.

Information Systems 1996 Examination Handbook, Federal Financial Institutions Examination Council. Phone: (202) 634-6520, Internet: http://www.ffiec.gov.

Policy Statement Manual, America s Community Bankers, 1994. Phone: (202) 857-3100 Fax: (202) 659-1134, Internet: http//www.acbankers.org.

Regulatory Bulletins (Series), Office of Thrift Supervision, U.S. Department of the Treasury, 1996. Phone: (301) 645-6264, Internet: http://www.ots.treas/gov.

Regulatory Handbook, (Thrift Activities, Compliance Activities, Holding Companies, Trust Activities) Office of Thrift Supervision, U.S. Department of the Treasury. Phone: (301) 645-6264, Internet: http://www.ots.treas.gov.

Responsibilities and Liabilities of Bank and Bank Holding Company Directors, Barnett, Robert E.: Commerce Clearing House, 1991. Phone: (312) 583-8500, Internet: http://www.cch.com.

New FDIC Guidelines Issued to Clarify the Responsibilities of Bank Directors and Officers, FIL-87-92 Federal Deposit Insurance corporation, 1992. Phone (800) 276-6003, Internet: http://www.fdic.gov.

Thrift Bulletins (Series), Office of Thrift Supervision, U.S. Department of the Treasury, 1996. Phone: (301) 645-6264, Internet: http://www.ots.treas.gov.

Trustee & Directors Handbook, (updated quarterly), America s Community Bankers. Phone: (202) 857-3100 Fax: (202) 659-1134, Internet: http://www.acbankers.org.

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