

Related Organizations

Examiners should evaluate the above-captioned function against the following control and performance standards. The Standards represent control and performance objectives that should be implemented to help ensure the bank operates in a safe and sound manner, and that the entity's objectives are carried out. Associated Risks represent potential threats to the bank if the standards are not achieved and maintained. The Standards are intended to assist examiners in analyzing important functions that may warrant additional review. All of the following Standards may NOT need to be considered at every bank. Conversely, these do NOT represent all of the control and performance standards needed for every bank. Examiners should continue to use their judgement when assessing risk.

Standards	Associated Risks
MANAGEMENT AND CONTROL	
The board establishes adequate policies and procedures concerning related organizations.	Unjustified payments to the affiliated organizations may place a burden on the bank's financial position.
The board reviews, approves, and monitors transactions between the bank and affiliates.	Abusive practices may negatively impact earnings, capital, and shareholder value.
The board ensures adequate management oversight of the bank.	Dividing management's time between the bank and related organizations may create conflicts of interest that adversely impact the bank.
The board understands and supports the importance of applicable regulations concerning transactions with the HC, affiliates, and subsidiaries.	Excessive use of bank resources to fund affiliated organizations may expose the bank to risks beyond the usual creditor exposures.
The board establishes an adequate independent audit.	Affiliated relationships and transactions may not be properly identified, which may increase the bank's exposure to credit, legal, and liquidity risk.
The board assures adequate separations between the bank and affiliated organizations.	Customer confusion (and potential liability to the bank) can arise when the business of the bank and affiliated organizations are not appropriately separated.
PERFORMANCE	
Management operates in conformance with policy guidelines and procedures.	Unauthorized actions may increase the risk of abusive transactions.
Management complies with all accounting pronouncements, laws, and regulations regarding related organizations.	Impermissible transactions with affiliates increase the risk of loss. Impermissible activities can force an untimely liquidation of investments. The bank's financial position may be misstated.
Management provides adequate information to the board to monitor transactions.	Inadequate information may lead to erroneous conclusions or decisions and financial risks may go undetected.
Management monitors activities of affiliated organizations to reduce the bank's exposure to excessive financial pressures.	Inadequate reporting mechanisms may compromise the board's awareness of affiliate interaction. Excessive activities of affiliated organizations and debt accumulation can increase financial pressure.
Affiliated organizations are operated with adequate	Inadequate capital of affiliates may lead to

Standards	Associated Risks
capital for the nature and scope of their business.	diminished bank capital.

Related Organizations

Core Analysis Decision Factors

Examiners should evaluate Core Analysis in this section for significance and to determine if an Expanded Analysis is necessary. Negative responses to Core Analysis Decision Factors may not require proceeding to the Expanded Analysis. Conversely, positive responses to Core Analysis Decision factors do not preclude examiners from proceeding to the Expanded Analysis if deemed appropriate.

Do Core Analysis and Decision Factors indicate that risks are adequately managed?

Core Answer: General Comment:(If any)

Core Analysis Decision Factors

C.1. Are bank policies and procedures adequate for the level of transactions among the holding company, affiliates, and subsidiaries?

C.2. Are internal controls adequate?

C.3. Are the audit or independent review functions adequate?

C.4. Are information and communication systems adequate and accurate?

C.5. Are bank affiliates able to operate without threatening the financial condition of the bank and are separated appropriately?

C.6. Do transactions comply with the appropriate Federal and state laws and regulations?

C.7. Are all affiliated organizations appropriately capitalized?

C.8. Do the board and senior management effectively supervise this area?

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Expanded Analysis Decision Factors

This section evaluates the significance and materiality of deficiencies or other specific concerns identified in the Core and Expanded Analyses.

Do Expanded Analysis and Decision Factors indicate that risks are adequately managed?

Expanded Answer: General Comment:(If any)

Expanded Analysis Decision Factors

E.1. Are deficiencies immaterial to management's supervision of transactions with related organizations?

E.2. Are deficiencies immaterial to the bank's financial condition?

Related Organizations

Consider the following procedures at each examination. Examiners are encouraged to exclude items deemed unnecessary. This procedural analysis does not represent every possible action to be taken during an examination. The references are not intended to be all-inclusive and additional guidance may exist. Many of these procedures will address more than one of the Standards and Associated Risks. For the examination process to be successful, examiners must maintain open communication with bank management and discuss relevant concerns as they arise.

IMPORTANT

The bank's corporate structure is subject to important laws and regulations: Bank Holding Company Act (BHC) of 1956, The Banking Act of 1933, Sections 23A and B of the Federal Reserve Act, Part 362 of the FDIC Rules and Regulations, and the Banking Act of 1982. These regulations define terms such as conclusive presumption, rebuttable presumption, affiliate, covered transaction, and low-quality asset. Do NOT use this module as a substitute for referencing the actual regulations.

Note: An "affiliate" is a broad term and includes (1) Bank holding companies; (2) Bank subsidiaries of the holding company; (3) Nonbank subsidiaries of the holding company; (4) Bank or financial subsidiaries of the bank; or (5) Any company that the Federal Reserve determines by regulation or order to be an affiliate. The existence of a chain organization should also be considered during the analysis.

Preliminary Review

- 1 Review prior examination reports, pre-examination memorandum, and file correspondence for an overview of any previously identified criticisms. Pay particular attention to Federal Reserve HC inspection reports.
- 2 Review the most recent external and internal audits to determine scope, criticisms, and recommendations with the Holding Company (HC), affiliates, and bank subsidiaries.
- 3 Identify relationships with holding companies, other affiliates and subsidiaries. Review possible ownership ties for affiliates not identified by the institution.
- 4 Examine the corporate structure surrounding the bank and identify affiliate transactions. Pay particular attention to the following items:
 - 4 A Policies established concerning tax sharing arrangements and various transactions between related organizations.
 - 4 B Listing of affiliated transactions from the pre-examination information.
 - 4 C Principal shareholder, director, and executive officer information.
 - 4 E Fixed asset subsidiaries or affiliates.
 - 4 F Multiple relationships with customers. (e.g., bank lends to a company, an affiliate underwrites its securities or sells securities of the company to its bank customers.)
- 5 Review the holding company and the bank's corporate structure for the possibility of a chain banking group. Note: A chain banking group is a group (two or more) of banks or savings associations or their holding companies which are controlled directly or indirectly by an individual or company acting alone or through or in concert with any other individual or company.

6 Review, to the extent possible, other Federal and state examination reports of the banks within a chain banking group for mutually-shared risks. Consider the following items:

- 6 A Size and complexity of the organizations.
- 6 B Overall condition of the institutions in the chain.
- 6 C Extent of loan participation among institutions in the chain.
- 6 D Degree of interdependence among institutions.
- 6 E Common deficiencies in lending and investment policies.
- 6 F Possible insider abuse.
- 6 G Shared management.
- 6H Degree and nature of control being exerted over individual institutions (absentee ownership).

Policies and Procedures

7 Determine if policies appropriately address relationships and transactions with related organizations.

8 Determine if formal and informal employee sharing agreements are appropriate and dual employees' work allocation conforms to the agreement.

Internal Controls

9 Determine the bank's methods for identifying transactions subject to Section 23A and 23B of the Federal Reserve Act. Determine if these methods adequately identify such transactions. Consider the following information:

- 9 A Internal reports (Management should document any covered transactions with affiliates).
- 9 B Loan records.
- 9 D Deposit accounts.
- 9 E Accounts payable and receivable.
- 9 F Board minutes.
- 9 G Discussions with management (e.g., Does management understand what services its affiliates provide?).

10 Determine the volume and frequency of inter-institution transactions such as loan participations or sales, purchase or sales of securities or other assets, bank stock loans, insider transactions and contractual obligations for services. Review these for possible noncompliance or abusive activities. Consider the following items:

- 10 A Loan quality asset prohibition.
- 10 B Collectibility of receivables.

- 10 C Collateral requirements for covered transactions.
- 10 D Advertising restrictions.
- 10 E Fixed asset arrangements.
- 11 Review any formal or informal agreements regarding covered transactions. Determine if management adequately documents and supports the cost, fee structure, and quality of services.
- 12 Determine the bank's compliance with any outstanding conditions of an approved order or commitment issued by the regulator.

Audit or Independent Review

- 13 Determine if the independent review provides sufficient coverage relative to the institution's size, scope of related organization activities, and risk profile. The independent review should:
 - 13 A Recommend corrective action, when warranted.
 - 13 B Verify that corrective action commitments have been implemented.
 - 13 C Assess separation of duties, internal controls, and supervision of related organization activities.
 - 13 D Determine compliance with policies, procedures, and regulatory requirements.
 - 13 E Assess the adequacy, accuracy, and timeliness of reports to senior management and the board.
- 14 Determine that results are reported to the board or designated committee on a timely basis.
- 15 Determine if management's responses to recent audits or independent reviews are reasonable.

Information and Communication Systems

- 16 Determine if management reports provide sufficient information relative to the size and risk profile of the organization and evaluate the accuracy and timeliness of the reports.

Evaluation of Affiliate Operations

- 17 Confirm the level of bank ownership by the holding company.
- 18 Review the stockholders listing and most recent proxy statements of the holding company. Note those ownership or control levels that satisfy the definition of control.
- 19 Review and analyze the holding company's financial information, such as 10-K, 10-Q, UBHCR and BOPEC rating. Internal financial statements, annual reports, the officer's questionnaire, and the holding company's inspection report. Consider the following items in the review:
 - 19 A Origin of long-term debt, short-term debt, unamortizing debt, and the level of pressure exerted on the bank subsidiary to upstream dividends.
 - 19 B Level of holding company borrowing used to provide equity contributions to the subsidiary bank (double leverage).

19 C Sources of income. Pay particular attention to management fees paid by the bank outside the dividends upstreamed.

19 D The holding company's ability to attract funds.

19 E Holding company transactions between subsidiaries.

19 F Income tax payments if tax return is filed on a consolidated basis. (Refer to the FDIC Statement of Policy, Income Tax Remittance by Banks to Holding Company Affiliates.)

19 G Deposit relationships maintained at the bank.

19 H Merchant banking or other activities at the holding company that may impact credit decisions at the bank level.

20 Review the management structure and programs of the holding company and its subsidiaries and determine the impact on the institution. Consider the following issues:

20 A Level of centralized control by the holding company over bank subsidiaries.

20 B Expertise that is available to the bank subsidiary.

20 C Training programs.

20 D Movement of officers between the bank, holding company, and affiliates. Note any unfilled positions within the bank subsidiary.

20 E Bank management time allocated to holding company activities versus bank business.

20 F Management contracts with holding company and bank subsidiaries and all supporting documentation.

20 G Applicability of Regulation O.

21 Determine that management and other fees paid by the bank have a direct relationship to the value of the actual goods and services rendered based on reasonable costs consistent with current market values for such goods and services.

22 Review any mortgage banking activity and servicing contracts with affiliates, if applicable. Pay particular attention to the following concerns:

22 A The capacity in which the affiliate is acting. (Acting as principal on the behalf of or as agent for the affiliate bank.)

22 B The nature of the services provided.

22 C The transfer of low quality assets.

22 D The adherence to regulatory requirements for mortgage servicing rights.

22 E The billing arrangement, frequency of billing, method of computation, and the basis for fees.

22 F The method for compensating the bank for balances maintained and net interest earned on warehouse loans and lines. This method should not be preferential.

22 G The pricing of loan and servicing right sales.

23 Analyze the subsidiaries' financial information, operating policies, and any activities and determine if they may be detrimental to the institution's financial position. Consider the following items:

23 A Quality of assets.

23 B Funding needs.

23 C Fees received from the bank.

23 D Salary structure of subsidiary's officers and shared officers.

23 E Financial condition of the subsidiaries.

Compliance with Sections 23A and 23B, Part 362, and Other Applicable Regulations

24 Confirm that the bank's loan agreements do not restrict a borrower from obtaining credit, property, or service from a direct competitor of the holding company, holding company's subsidiaries, or bank's subsidiaries as a condition of credit (Anti-tying provision of the BHC Act). (Note: The provision is not intended to restrict the bank's ability to impose debt limitations on borrowers.)

25 Assess whether bank customers who purchased financial products of affiliated organizations have been notified of the affiliate relationship.

26 Determine if the subsidiaries' activities are permissible and comply with appropriate Federal and state laws and regulations.

27 Assess the adequacy of corporate, management, and physical separations that exist between the bank and affiliated organizations.

Affiliate Capitalization

28 Determine if affiliates are in compliance with the capital requirements of their functional regulator.

Related Organizations

Generally, procedures used in the Expanded Analysis should target concerns identified in the Core Analysis and Decision Factors. Expanded procedures associated with Core Analysis and Decision Factors of no concern need not be used. The flexible guidelines specified for the Core Analysis also apply here.

1 Investigate why the policy and procedure deficiencies identified in the Core Analysis exist.

Possible reasons for policy deficiencies may include the following circumstances:

1 A Management overlooked these issues.

1 B Management is unfamiliar with prudent related organization guidelines and procedures.

1 C Management is unwilling to create or enhance policies and procedures.

2 If poor compliance with policies and procedures exist, determine the reasons. Possible reasons are detailed below:

2 A Lack of awareness of policy existence.

2 B Disregard for established policies.

2 C Misunderstanding of the intent of policy guidelines.

2 D Poor internal communication of policy and procedures or subsequent revisions.

3 Determine if management commits to and supports proper controls and monitoring to ensure policy guidelines are followed in the future. Determine if proposed controls are reasonable.

4 Determine the effect on the bank of inappropriate employee allocation agreements or nonconformance with the agreement.

5 Determine if reimbursements are necessary for improper transactions.

6 Determine if the affiliate's or subsidiary's financial position will require additional funding requirements. Identify the source of the additional funding and the effect on the bank.

7 Determine the cause of violations or contraventions of FDIC statements of policies and identify responsible parties. Consider the following items:

7 A Unfamiliarity with laws, regulations, or statement of policies.

7 B Negligence.

7 C Misinterpretation of statutory or regulatory requirements or prohibitions.

7 D Willful noncompliance.

8 If the bank is critically undercapitalized (Under PCA), determine if the bank has engaged in any covered transaction as defined in section 23A, without the prior approval of the FDIC or FRS.

Related Organizations

Impact Analysis reviews the impact that deficiencies identified in the Core and Expanded Analysis and Decision Factors have on the bank's overall condition. Impact Analysis also directs the examiner to consider possible supervisory options.

- 1 Determine if the risks associated with affiliated relationships pose a material threat to the institution's capital, asset quality, earnings, and liquidity. Assess the future impact on the institution if these deficiencies continue.
- 2 Determine if management quickly and effectively reduce the risks associated with affiliated relationships.
- 3 Determine if administrative and enforcement actions, Civil Money Penalties, or removal actions are necessary. Formulate specific recommendations, and advise the appropriate supervisory officials on the nature of the concerns. (FDIC: Field Office Supervisor and the Regional Office.)
- 4 Discuss the possibility of administrative and enforcement actions with executive management and the board of directors.