
Earnings Examination Program

Examination Objectives

To determine whether:

- the savings association's procedures for monitoring the trust department's income and expenses, relative to the size and scope of its trust and asset management activities and their importance to the institution, are adequate and effective;
- the savings association's supports growth and new business development; and
- the frequency and scope of profitability reviews and planning by the board of directors and senior management is adequate.

Examination Procedures

Wkp. Ref.

Level I

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

1. Review examination scoping materials related to the income, expenses and profitability of the trust department. Scoping materials should include:
 - Risk profile
 - Relevant PERK documents
 - Three year UTPR
 - ECEF reports
 - Previous trust and asset management examination report

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- Previous safety and soundness examination report
- Workpapers from the previous examination
- Management financial reports
- Board and committee minutes
- Current fee schedule
- Referral fee agreements
- Employee commission arrangements

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2. Review the board of directors' minutes for discussions related to the financial aspects of trust and asset management activities.
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3. Review losses, charge-offs, settlements and other similar financial activities since the previous examination and evaluate for recurring patterns or unusual trends. Review any ongoing litigation for potential impact on earnings.
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4. Evaluate the savings association's financial condition with regard to its trust and asset management activities. Note and evaluate any significant or unusual fluctuations in the year-to-date and past three fiscal year financial statements.
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5. Assess the trust department's new business and marketing plans and determine if there are any significant changes since the last examination. If so, has management considered the impact of these changes on the growth and earnings of the trust department and the savings association?
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6. Assess management's review of fees, expenses and related items.
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7. Review the trust department's current budget.
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8. Consider whether management has addressed the following factors in relation to financial and strategic risk:
- the level of current income and expenses are meeting management's expectations;
 - the business planning and budgeting processes for trust and asset management activities are sufficient;
 - appropriate provisions have been made for future trust and asset management products and services, including such factors as new business development goals, reasonable profit expectations, reasonable market penetration objectives and potential management or staffing changes;
 - undue reliance is not being placed on nonrecurring fees; and
 - charge-offs and other settlement actions that may adversely affect projected income, expenses and capital, particularly if they are recurring.
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The completion of the Level I procedures may provide sufficient information to make a determination that no further examination procedures are necessary. If no determination can be made, proceed to Level II.

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Level II

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

1. Compare the trust department budget to actual operations and identify any material variances. Determine if the budget is realistic and has management's support.

2. Review any account receivables over 60 days past due. Determine if this has been a recurring problem. Discuss the collection policy with management.

3. Determine if there are numerous deviations from the standard fee schedule. If so, discuss the fee waiver policy with management.

4. Review referral fee and commission arrangements. Determine their impact on earnings.

5. Determine the accuracy of the FFIEC Form 001 and the quarterly TFR regarding the reporting of trust department assets.

6. Determine if management has a plan for handling customer complaints.

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

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Level III

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

1. Evaluate the income statement and determine if excessive revenue is being passed on to an affiliate or other third party.

2. Evaluate the expense report and determine if there are excessive expenses being charged by an affiliate or other third party.

3. If the trust department experiences significant internal issues and/or risks that threaten the viability of the institution, discuss strategic turnaround plans with management and determine whether the board of directors has been advised.

4. Determine if management has a plan for personnel replacement.

5. Determine if a capital plan should be developed.

6. Determine if management should develop a loss reserve.

7. As appropriate, discuss the long-term viability of the trust department with management in light of continuing losses and the risks they may pose to the institution. Has the board considered transferring the trust accounts and relinquishing its trust charter.

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

References - 610P

None

Workpaper Attachments - 610P

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Optional Topic Questions

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

Policies and Procedures

<ul style="list-style-type: none">• Has a procedure for pricing trust and asset management services been established and has a fee schedule been committed to writing?
<ul style="list-style-type: none">• Does management periodically review the fee schedule to address the continued reasonableness of fees in relation to the services provided?
<ul style="list-style-type: none">• Does a designated committee or person approve deviations from the fee schedule and is the reason for the deviation documented?
<ul style="list-style-type: none">• Does the board or a designated committee review profitability at least annually?
<ul style="list-style-type: none">• Does the profitability review consider deviations from budgets and salaries?
<ul style="list-style-type: none">• Does the internal allocation process for certain expenses appear reasonable?
<ul style="list-style-type: none">• Are there any unusual circumstances that have a significant negative effect on profitability, such as numerous fee waivers, unusual expense items or unprofitable product lines?
<ul style="list-style-type: none">• Does management review losses, charge offs and settlements and their effect on profitability?

Business Plan

<ul style="list-style-type: none">• Does the savings association's business plan include short and long term goals for trust and asset management activities?
<ul style="list-style-type: none">• Prior to expanding a product line or demographic area, does the business plan consider staffing and other costs?
<ul style="list-style-type: none">• Are provisions in place for developing new sources of business and services?
<ul style="list-style-type: none">• Does the plan consider marketing and advertising?
<ul style="list-style-type: none">• Does the plan consider the trust department's strengths and weaknesses as well as the competitive environment?

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