

Confidential Memorandum for Nonconforming Assets

To: Director, Licensing Activities
From: *(Insert Name of Initial Reviewer)*
Date: *(Insert Date)*
Re: *(Insert name of the converting institution)*
(Insert CAIS Control Number)
Nonconforming Assets

Recommendation:

The recommendation should briefly explain the nature of the nonconforming asset. Include any special conditions considered necessary for the specific asset(s) in question. For example:

Assuming that the underlying application will be approved, I recommend that the applicant's request to retain ownership of a real estate development company be approved subject to the following special condition:

The applicant may retain the real estate development company subject to its representation that if such asset is not conforming it will divest of the nonconforming asset within *(insert time period within two years)* of the consummation of the conversion, unless within that time period, the OCC determines that this asset is a permissible investment.

Applicant Information:

Provide a brief description of the converting applicant, including asset size, CAMELS ratings, BHC affiliation, BOPEC ratings, and any significant supervisory issues.

Description of the asset(s):

Describe the asset. For example:

The nonconforming asset is a \$750,000 investment in ABC Company, a real estate development firm. ABC Company is the seventh largest real estate developer in Alaska, having an estimated 10 percent of the market. It was established in 1896 and acquired by the applicant in 1926. It has an unbroken stream of profitable years during the 20th century. The bank's last two examination reports disclose no substantive concerns. The management team is experienced and operates independently from the applicant. The firm's external auditor is XYZ, and this audit is conducted separately from that of the applicant.

Effect on the applicant:

Describe the size and scope of the asset or underlying activity, influence on the applicant's overall performance, and any particular unusual risks that the asset or underlying activity presents. Briefly discuss the impact that retention of the asset will have on the bank. For example:

The bank's investment is negligible given their total assets of \$1.85 billion. Furthermore, the annual income from this subsidiary (approx. \$1.0 million) is a small amount when compared with the applicant's average net income for the last five fiscal years (\$172 million). There are no unusual risks or supervisory issues presented by the real estate development firm. Based on

history, possible fluctuations in business should not threaten the bank's equity capital. The firm's biggest loss in the past decade represents less than two percent of equity capital.

Supervision:

After consulting with the Supervisory Office, indicate how supervision of the asset or underlying activity will be addressed in the proposed supervisory strategy for the bank. Also, indicate whether existing examination procedures are adequate for supervision of the asset or underlying activity or how it will be examined.

Position(s) of Other OCC Staff:

Briefly discuss pertinent comments received from other OCC staff during the analysis of the application. For example:

District counsel confirmed that a real estate development company is a permissible investment for a state-chartered bank. The district accountant verified that the applicant's accounting of the investment conforms to call report instructions.

Summary of Comments Received:

Briefly discuss any public or other comments received which relate to the specific asset(s).