

Attachment A

Among the elements discussed in this letter that examiners should review, as appropriate, in an inspection of a BHC are the following:

Capital Adequacy Management

These procedures are not intended to comprehensively encompass a BHC's capital planning, and are focused on information that may be useful in reviewing the impact of dividends and repurchases or redemptions on capital adequacy. More comprehensive inspection procedures for assessing capital adequacy of BHCs are available in section 4060.3.11 of the Federal Reserve's *Bank Holding Company Supervision Manual*.¹

- Determine if the existing capital level is adequate for the BHC's risk profile when considering the following items:
 - The level and trend of adversely classified assets;
 - The adequacy of the allowance for loan and lease losses;
 - The volume of charged off loans and recoveries;
 - The balance sheet structure and liquidity needs;
 - The level and type of concentrations;
 - Compliance with state and federal capital requirements; and
 - Composition of elements of capital.
- Determine if earnings performance enables the BHC to fund its growth, remain competitive in the marketplace, and support its overall risk profile. Consider the level and trend of equity capital to total assets as well as asset and equity growth rates.
 - Review the current level of the provision for loan and lease losses.
 - Review whether the bank is relying on core earnings or income from non-recurring events.
 - Determine if dividends are excessive when compared to current earnings or potential capital needs, or could otherwise result in a material adverse change to the organization's capital structure.
- Determine the effect of current capital levels on the future viability of the BHC and its subsidiary depository institutions.
 - Assess management's ability to reverse deteriorating trends and to augment capital through earnings.
 - Assess the ability of the BHC to raise capital from existing shareholders, issue new capital instruments, or access alternative sources of capital.
 - Assess the reasonableness of capital plans.

¹ This manual is available on the Board's public website at <http://www.federalreserve.gov/boarddocs/supmanual/>.

Dividends in Cash or Other Value

- Determine whether the BHC has a comprehensive dividend policy at the holding company and for each of its subsidiaries that help it in its capital planning processes.
- Assess whether provisions contained in the policies and practices conform to the guidance outlined in the Federal Reserve Board's 1985 dividend policy statement.
- Determine whether, and if so, how, the BHC has changed in any way its dividend policy to accommodate the current economic environment.
- Assess whether dividends in cash or other value are consistent with the BHC's current and prospective capital needs, including likely future reserve increases and asset writedowns, as well as the feasibility in the near term of the BHC raising additional capital in the market.

Stock Repurchases and Redemptions

- Review schedule HI-A (Changes in Equity Capital) of the BHC's FR Y-9C report for any changes in components of capital.
- Review any correspondence from the BHC to the Federal Reserve that indicates any plans to initiate common or preferred stock repurchases or redemptions in the foreseeable future.
- Review the BHC's strategic plan for any mention of stock repurchases or redemptions.
- Review the BHC's capital plan for any mention of stock repurchases or redemptions.
- Discuss with management whether they are in any other way contemplating stock repurchases or redemptions, and if so, what the likely magnitude and timeline of such repurchases will be.
- Assess whether such repurchases or redemptions foster sound capital positions, especially if the organization is (or could be) experiencing financial weakness.

CPP Participants

- Review cash dividends declared or paid to shareholders of the BHC since the CPP investment was made to determine if cash dividends declared or paid have remained at or below the same level as the per share cash dividend declared for the most recent quarter prior to the investment.
- Verify that the BHC has a feasible plan and projections for redemption or repurchase of these capital instruments within a reasonable and flexible period of time.
- Review the BHC's capital structure to evaluate whether any tier 1 or tier 2 capital instruments have been retired without prior Treasury or regulatory approval subsequent to the CPP investment.