



Comptroller of the Currency
Administrator of National Banks

Introduction

Comptroller's Handbook

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EP

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Foreword

This Comptroller's Handbook is a revision of The Comptroller's Handbook for National Bank Examiners. It contains the most current concepts and procedures established by the Office of the Comptroller of the Currency for the examination of national banks. It is designed to:

- Educate examiners and bankers about the risks, rewards, and necessary controls associated with different areas reviewed during a bank examination.
- Provide examiners and their managers with the information necessary to plan and coordinate an examination and to monitor problems or other conditions and implement appropriate follow-up.
- Guide examiners in performing consistently high-quality, professional examinations.
- Help bankers develop appropriate management controls by outlining the elements of a bank examination and what bank examiners look for in different areas of a bank.

The procedures and questionnaires in this handbook are directed to a medium-sized bank. Specific booklets are included which discuss OCC's examination approach for noncomplex community banks and large banks.

Even for the medium-sized bank, examiners may not complete all procedural steps or answer all internal control questions in this book during a particular examination. For each examination, examiners will, at a minimum, perform procedures to assign CAMEL ratings in compliance with the full-scope annual examinations requirement of the Federal Deposit Insurance Corporation Improvement Act (FDICIA). For other procedures, the examiner considers the risk posed by and the materiality of the operation under examination to decide the scope and additional procedures to be followed. This flexibility allows examinations to be tailored to fit the operations of a specific bank while fulfilling the needs of the Comptroller's Office and statutory requirements.

This handbook will be updated as necessary to accommodate changes in the banking industry and in the responsibilities of the Office of the Comptroller of the Currency. All examiners and bankers are encouraged to submit suggestions for refining and developing the handbook. Those suggestions should be submitted to the Office of the Chief National Bank Examiner, Washington, DC 20219.

Introduction Organization and Use of the Handbook

Structure

This revised Comptroller's Handbook is a developing project. It is being issued as a series of booklets so that materials can be kept more current. To make it useful to bankers and national bank examiners, the booklets will be keyed to the examination components.

For safety and soundness examinations, there will be eight components. Five are the CAMEL components ("Capital," "Assets," "Management," "Earnings," and "Liquidity") for which ratings must be confirmed at each full-scope examination. Booklets covering those components will include examination procedures used to derive those ratings.

The other three safety and soundness components present necessary information on examination administration ("Bank Supervision and Examination Processes") and areas of operations not directly related to CAMEL ("Other Areas of Examination Interest" and "Other Income-Producing Activities"). Examination of those other matters helps examiners evaluate the overall condition of the bank and can contribute to ratings of CAMEL components.

Later, the "Electronic Data Processing," "Trust," "Community Reinvestment Act," and "Consumer Compliance" (ETCC) components will be issued in similar booklets.

Booklet covers will clearly identify the relevant component and subject(s) covered. Each will also carry an effective date.

The new format will permit quicker updating of information as material changes and/or new issues emerge. Booklets will be issued as soon as they are prepared and will be reissued as needed. Before booklets are reissued, information may be updated through other OCC communications, including issuances, questions and answers, and educational programs.

Organization

As explained above, the components of the revision are:

- Bank Supervision and Examination Processes.
- Capital.
- Assets.
- Management.
- Earnings.

- Liquidity.
- Other Areas of Examination Interest.
- Other Income Producing Activities.

Each component will encompass one or more booklets about specific bank activities, products, or services. Booklets may contain one or more related examination area. For example, credit card plans and merchant processing will make up one booklet.

Most subjects will be divided into six subsections:

- Introduction.
- Examination Objectives.
- Internal Control Questionnaire.
- Examination Procedures.
- Verification Procedures.
- References.

Not every subject will include each subsection. For example, verification procedures will not be included in "Duties and Responsibilities of Directors," in the Management component. Booklets will include tables of contents.

Subsection Content

The **Introduction** describes the subject and explains how the activity or operation fits into a bank. This introductory material provides comprehensive information and guidance to both examiners and bankers. OCC policies about the activity, including the content of prior OCC issuances, will be included in this section. The Introduction also focuses on the risks, rewards, and controls examiners evaluate when examining an area.

The **Examination Objectives** state an examiner's primary goals for an area. The objectives listed are general to an examination of the area and are designed to help examiners tailor the examination to the specific bank. Some examination objectives, for example, evaluation of the bank's internal controls, policies, practices, procedures, and the scope and adequacy of the audit function, help examiners determine the examination scope. Others, for example, determination of compliance with laws, rules, and regulations and evaluating need for corrective action, provide a framework to help examiners identify areas of risk and develop and implement a strategy for supervising the bank.

The **Internal Control Questionnaire** helps an examiner assess a bank's control systems and improve his or her understanding of the bank's internal controls, policies, practices, and procedures. The questionnaires ask about controls

that ideally are in effect to provide the bank with proper day-to-day protection. Controls are either accounting or administrative (the differences are discussed in detail later in this handbook). The examiner is primarily interested in controls that relate to compliance with managerial policies.

The examiner decides when to complete or update the questionnaires as part of an examination.

The **Examination Procedures** are steps an examiner may follow to accomplish his or her objectives for an area. The procedures are not a checklist to be completed for every examination. Rather, they are a comprehensive collection of approaches from which the examiner selects only those necessary to adequately assess the area in the bank under examination.

Verification Procedures ensure a bank is following appropriate procedures in an area. Ideally they are performed by the bank's staff, directors and internal and/or external auditors. If an examiner concludes that a bank's internal controls or internal audit program is not adequate, he or she may:

- Require the bank to verify immediately the existence of assets and the reliability of records, or
- Broaden the scope of the examination to include verification procedures.

After adequate verification procedures are implemented by the bank, the examiner can set these procedures aside until they are needed when weaknesses are identified at future examinations.

References list other OCC documents that relate to the area. This section cross-references this handbook and the Comptroller's Manual for National Banks, Financial Accounting Standards Board (FASB) rules and opinions, and significant OCC interpretations, etc.

Use of Handbook

This handbook was developed primarily for national bank examiners to use in supervising banks, but has grown to serve other users as well. It educates readers about bank activities and provides a guide to how the OCC expects banks to conduct different activities.

This handbook is not confidential. Examiners should discuss its contents with bank personnel and welcome suggestions for its improvement. All comments, questions, and suggestions are appreciated.

Correspondence concerning the handbook should be addressed to:

Chief National Bank Examiner
Office of the Comptroller of the Currency
Washington, DC 20219

Questions about material in the handbook may also be directed to the office of the Chief National Bank Examiner at (202) 874-5190. Calls will be directed to subject matter experts in the examination areas. Examiners may send E-mail comments to the bulletin board at OCC.Chiefswire.

Outline of Information

The following Outline details the contents of the Comptroller's Handbook. The handbook is distributed on a rotating basis as a series of separate booklets, organized under eight components) the five CAMEL components ("Capital," "Assets," "Management," "Earnings," and "Liquidity"), "Bank Supervision and Examination Processes," "Other Areas of Examination Interest," and "Other Income-Producing Activities."

Each component is covered in at least one booklet. Booklets may cover more than one related examination area. For example, credit card plans and merchant processing are together in one booklet. Booklets will be issued in the order prepared and new booklets will be prepared as needed. Booklets will be identified by their component (the abbreviation in parentheses) and subject(s).

The information in the handbook is organized under the components as follows:

Bank Supervision and Examination Process (EP)

- Introduction to the Handbook
 - Organization and Use
 - Outline of Information
 - Section Cross Reference
- Bank Supervision Process
 - Large Bank Program
 - Community Bank Examination Procedures for Noncomplex Banks
- Examination Planning and Control
- Internal Control
- Internal and External Audit
- Sampling Methodologies
- Working Papers
- Overall Conclusions
- Communications
 - Board Meetings
 - Report of Examination
 - Supervisory Monitoring System
- Federal Branch and Agency Examination

Capital (C)

- Capital Accounts and Dividends

Assets (A)

- Cash and Balances Due from Depository Institutions
- Loan Portfolio Management
 - Classifications of Credit
 - Concentrations of Credit
 - Allowance for Loan and Lease Losses
 - Commercial Lending
 - Oil and Gas Lending
 - Floor Plan Financing
 - Asset-Based Lending
 - Commercial Real Estate and Construction Lending
 - Bankers' Acceptances
 - Trade Financing
 - Lease Financing
 - Instalment Lending
 - Credit Card Plans and Merchant Processing
 - Residential Real Estate and Home Equity Lending
 - Check Credit
- Investments/CMOs
- Bank Premises and Equipment
- Other Real Estate
- Other Assets/Other Liabilities

Management (M)

- Duties and Responsibilities of Directors
- Management and Board Processes
- Management Information Systems
- Insider Transactions
- Related Interests/Affiliate Organizations
- Employee Benefits

Earnings (E)

- Analytical Review of Income and Expense

Liquidity (L)

- Funds Management
- Interest Rate Risk
- Deposit Accounts
- Nondepository Funding
- Interbank Liabilities

Other Areas of Examination Interest (O)

- Consigned Items and Other Customer Services
- Regulatory Reports
- Information Systems Services
- Payment Systems, Funds Transfer Activities, and Debit Cards
- Litigation and Other Legal Matters
- Insurance

Other Income-Producing Activities (I)

- Bank Dealer Activities
- Discount Brokerage Activities
- Private Placements
- Retail Nondeposit Investment Sales
- Bank Derivatives Products
- Commercial Paper Funding
- Mortgage Banking
- Foreign Exchange
- Asset Management

Section Cross Reference

Former Comptroller's Handbook for National Bank Examiners		New Comptroller's Handbook	
Section Number and Title		Component and Subject Titles	
	Foreword	EP-Intro	Foreword
.1	Table of Contents	EP-Intro	Outline of Information
.2	Section Index	EP-Intro	Section Cross Reference
.3	Subject Index	[eliminated]	
1.1	Bank Supervision Process	EP-Sup	Bank Supervision Process
1.2	Organization and Use of Handbook	EP-Intro	Organization and Use of Handbook
001	Internal Control	EP-IC	Internal Control
002	Statistical Sampling	EP-SM	Sampling Methodologies
003	Working Papers	EP-WP	Working Papers
101	Planning and Control for Supervisory Activities	EP-P&C	Examination Planning and Control
102	Internal and External Audit	EP-Aud	Internal and External Audit
201	Cash	A-Cash	Cash and Balances Due from Depository Institutions
202	Due from Banks	A-Cash	Cash and Balances Due from Depository Institutions
203	Investment Securities	A-Inv	Investments/CMOs
204	Bank Dealer	I-BD	Broker/Dealer Activities
205	Loan Portfolio Management	A-LPM	Loan Portfolio Management
206	Commercial	A-CL	Commercial Lending
207	Accounts Receivable	A-ABL	Asset-Based Lending
208	Direct Lease Financing	A-LF	Lease Financing
209	Instalment	A-IL	Instalment Lending
210	Floor Plan	A-FP	Floor Plan Financing
211	Check Credit	A-CC	Check Credit
212	Credit Card	A-CCMP	Credit Card and Merchant Processing
212A	Merchant Processing	A-CCMP	Credit Card and Merchant Processing
213	Real Estate	A-CRE	Commercial Real Estate and Construction Lending
214	Real Estate Construction Loans	A-CRE	Commercial Real Estate and Construction Lending

215	Classification of Credits	A-Class	Classification of Credits
216	Concentrations	A-Conc	Concentrations of Credit
217	Allowance for Loans	A-ALLL	Allowance for Loans and Lease Losses
218	Bank Premises	A-BP	Bank Premises and Equipment
219	Other Real Estate Owned	A-ORE	Other Real Estate
220	Other Assets/Other Liabilities	A-OA/L	Other Assets/Other Liabilities
301	Deposits	L-Dep	Deposits
302	Borrowed Funds	L-NF	Nondepository Funding
303	Capital Accounts	C-Cap	Capital Accounts and Dividends
401	Income & Expense	E-I&E	Analytical Review of Income and Expenses
402	Computer Services	O-ISS	Information System Services
403	Consigned Items	O-CI	Consigned Items and Other Customer Services
404	Employee Benefits	M-EB	Employee Benefits
405	Funds Management	L-FM	Funds Management
406	Risk Management & Insurance	O-Ins	Insurance
407	Related Organizations	M-Aff	Related Interests/Affiliate Organizations
408	Verification of Regulatory Reports	O-RR	Regulatory Reports
409	Litigation	O-Lit	Litigation and Other Legal Matters
410	Funds Transfer & Payment Systems Risk	O-PS	Payment Systems, Funds Transfer Activities, and Debit Cards
411	Private Placements	I-PP	Private Placements
412	Discount Brokerage	I-DB	Discount Brokerage Activities
413	Retail Nondeposit	I-RNIS	Retail Nondeposit Investment SalesInvestment Sales
414	Interbank Liabilities	L-Lia	Interbank Liabilities
501	Duties & Responsibilities of Directors	M-Dir	Duties and Responsibilities of Directors
502	Management Appraisal	M-MGT	Management and Board Processes
503	Overall Conclusions	EP-OC	Overall Conclusions
504	Board of Directors' Meetings	EP-BOD	Board of Directors Meetings
600	Report of Examination	EP-ROE	Report of Examination
701	Federal Branches	EP-FB	Federal Branch and Agency Examination
801	International Introduction	[eliminated]	
802	International Cash	A-Cash	Cash and Balances Due from Depository Institutions

803	Due From Foreign Banks) Demand	A-Cash	Cash and Balances Due from Depository Institutions
804	International Investments	A-Inv	Investments/CMOs
805	International Loan Portfolio Management	A-LPM	Loan Portfolio Management
806	Loans and Current Account Advances	A-CL	Commercial Lending
807	Financing Foreign Receivables	A-ABL	Asset-Based Lending
808	Bankers' Acceptances	A-BA	Bankers' Acceptances
809	Due from Banks) Time	A-Cash	Cash and Balances Due from Depository Institutions
810	International Borrowed Funds	L-NF	Nondepository Funding
811	Letters of Credit	A-TF	Trade Financing
812	Guarantees Issued	A-TF	Trade Financing
813	Foreign Exchange	I-FX	Foreign Exchange
814	Cable Department	O-PS	Payment Systems, Funds Transfer Activities, and Debit Cards
815	Report of Examination	[eliminated]	
816	International Glossary	[eliminated]	
817	Bank Exposure of Country Risk	A-LPM	Loan Portfolio Management
900	Appendix Sections	[incorporated into applicable booklets]	

New Sections

EP-LB	Large Bank Program
EP-NCB	Community Bank Examination Procedures for Noncomplex Banks
EP-SMS	Supervisory Monitoring System
A-OGL	Oil and Gas Lending
A-RRE	Residential and Home Equity Lending
M-MIS	Management Information Systems
M-IT	Insider Transactions
L-IRR	Interest Rate Risk
I-CPF	Commercial Paper Funding
I-Der	Bank Derivatives Products
I-MB	Mortgage Banking
I-AM	Asset Management