



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

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To: Chief Executive Officers of National Banks and All Examining Personnel

The enclosed booklet, "Lease Financing," is part of an ongoing update and revision of the *Comptroller's Handbook*. This booklet provides detailed guidance to assist in understanding and evaluating the effectiveness of a bank's lease financing activities.

"Lease Financing" includes the January 17, 1997, revisions to the final rule governing national bank lease activities in 12 CFR part 23; a discussion of the risks inherent in leasing activities; a discussion of accounting for lease transactions; a glossary of commonly used terms; and revised examination procedures.

This booklet is the first of the *Comptroller's Handbook* series to introduce examination procedures in a new form. This new structure is a result of the OCC's efforts to incorporate risk-based supervision into all aspects of examination. The revised risk-based procedures format has three components:

- Core knowledge — a database of information that defines the bank's culture, risk tolerance, and other internal and external circumstances.
- Core assessment — minimum standards or procedures that are required to be completed during the OCC's supervisory cycle, e.g., the community bank procedures for noncomplex banks.
- Optional procedures that explain how to examine specific bank activities.

The optional procedures in this booklet and the booklets that follow consolidate the examination objectives, procedures, internal controls, and verification procedures found in the former handbook sections. While these new procedures may not differ significantly in content from those of previous handbooks, they are restructured to present a more logical sequence and to guide examiners to conclusions about the quantity of a bank's risk and the quality of its risk management.

The procedures in this booklet offer guidance in conducting a full review of lease financing activities. Because the nature and scope of leasing activities differ among banks, examiners will exercise judgment in determining which procedures are required to assess the risk and risk management aspects at each bank.

Core knowledge and core assessment will be more fully explained in the next edition of the "Bank Supervision Process" booklet.

If you have any questions regarding this booklet, please contact the Credit Risk Division at (202) 874-5170.

To order more copies of the booklet, please send your request and \$15 for each booklet to the Office of the Comptroller of the Currency, P.O. Box 70004, Chicago, IL 60673-0004.