



# EXAMINING ISSUANCE

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Comptroller of the Currency  
Administrator of National Banks

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Type: Examining Circular

Subject: Supervision Program for Chain Banks

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TO: Deputy Comptrollers; District Administrators; Department Heads; Division Directors;  
and Examining Personnel

## PURPOSE

This circular establishes the supervisory policy for national banks in chain banking organizations. The policy provides for a monitoring system and establishes a strategic framework for coordinating examinations of chain banks. Implementation of this policy is intended to enhance OCC's ability to supervise chain banks by systematically identifying such relationships and coordinating examinations of those chain banks that possess characteristics warranting a higher degree of supervisory concern. This will facilitate detection and control of the conditions that could expose those institutions to undesirable systemic risks that may occur throughout the chain group.

## BACKGROUND

Generally, the term "chain banking" describes the form of banking structure in which two or more independently chartered banks are controlled either directly or indirectly by the same individual, family, or group of individuals closely associated in their business dealings. A registered multibank holding company and its subsidiary banks are not ordinarily considered a chain banking organization unless the holding company is linked to other banking organizations through common control.

While chain banking can be an effective and efficient form of banking structure, providing many of the benefits common to multibank holding company systems, it also provides the potential for unsafe and unsound banking practices to impact more than one institution in the chain group.

The linkage of several banks or holding companies into a chain creates a concentration of banking resources vulnerable to mutual risk. Mutually shared risks that occasionally can arise in chain banking relationships may result from poor loan participation practices; common deficiencies in lending, investment or other policies; domineering or absentee ownership; insider lending abuses or other self-serving practices. Detection and correction of these problems is often complicated when the chain is composed of institutions subject to multiple supervisory jurisdiction.



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## POLICY

OCC will supervise national banks that are part of a chain banking organization in a manner that fully considers the consolidated chain's impact on the safety and soundness of the subject national bank(s). This supervisory strategy is intended to ensure that OCC resources are efficiently and effectively deployed.

Therefore, supervision will be coordinated to address the risk posed by the entire chain. OCC will initiate contacts with and cooperate with other federal or state financial institution supervisory authorities to ensure an effective evaluation of the condition and prospects of the chain group and its member institutions.

## PROCEDURES

Management Information System of Records:

Deputy Comptrollers (District) are responsible for implementing and maintaining a system of records designated as the "Chain Banking Organizations System." The System will consist of word processing or microprocessing programs which detail two types of data:

- Ⓐ Name of an individual (or group of individuals acting in concert) that owns or controls two or more banks or financial institutions (including at least one national bank); and
- Ⓑ Information concerning individual chain banks, such as: name and location, charter number, charter type, date of last examination, percentage of outstanding stock owned by controlling individual or group and, if applicable, name of intermediate holding entity and percentage of it held by controlling individual or group.

For purposes of this issuance, a presumption of effective control should be made if the common owner has the ability, directly or indirectly, to control the vote of 25% or more of any class of voting securities or to direct the management or policies of the bank. However, the record should also identify any known or suspected chain relationship regardless of the percentage of voting control.



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The system of records should adhere to the data format set forth in Attachment A. The system should also comply with the policies and practices for storage, retrieval, access, retention and disposal set forth in Attachment B.

In addition, since the system is subject to the provisions of the Privacy Act of 1974, procedures should be implemented by District Counsel to process any Privacy Act access requests made regarding records in the system, as set forth in Attachment B.

#### Scheduling Coordinated Examinations:

District Administrators are responsible for setting the overall supervisory strategies for each chain organization. As part of the overall supervisory strategy, on-site examinations should be coordinated with other regulatory agencies. District Administrators or their designees are responsible for initiating interagency planning sessions and making the final decision regarding which chain banks will be examined in coordination with other supervisory authorities. Decisions regarding supervisory strategies and action plans for chain organizations should be documented in the files of the affected banks.

Periodic examination planning sessions held with the Federal Deposit Insurance Corporation regional offices and Federal Reserve System district banks pursuant to the provisions of PPM 5400-2, should incorporate consideration of concurrent or coordinated examinations of chain banking groups. As appropriate, other affected regulatory authorities such as the Federal Home Loan Bank Board or State officials should be invited to participate.

District Administrators or their designees are responsible for seeing that chains which operate on an inter-District basis are coordinated with their counterparts. For those chains operating on an intra-District basis, District Administrators or their designees should see that strategies and examinations are coordinated with each affected Field Office.

In devising an appropriate supervisory action plan including deciding whether to conduct concurrent or coordinated examinations the following factors should be considered:

- ③ The degree and nature of control or influence being exerted over individual banks in the chain. The managerial style and extent of direct control or influence at each institution in the chain.



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- Ⓐ The relative complexity and sophistication of the chain's organizational structure including the degree of centralization of operations.
- Ⓑ The degree of interdependence among the individual institutions in the group with specific emphasis on the volume and frequency of interbank transactions such as: loan participations or sales; insider and related interests loans or transactions; BHC or bank stock loans; correspondent or interbank transfers; contractual obligations for services or other matters: purchases or sale of securities or other assets.
- Ⓒ The relative strengths and weaknesses of the individual institutions in the group including comparative size, overall condition and historical performance. The existence or suspicion of instability or weaknesses should be given particular weight.

## Supervisory Follow-up and Monitoring:

District Administrators or their designees should ensure that the condition of chain organizations are monitored on an ongoing basis. This would include periodic on-site, as well as off-site monitoring of information, including collection of information directly from the chain and from other regulators.

Procedures should be established to assure the timely exchange of significant information between the participating examining personnel and other supervisory authorities. For guidance refer to the "Joint Statement of Policy on Interagency Exchange of Supervisory Information" dated August 23, 1984.

Periodically, but at least annually, the examiner-in-charge of the principal national bank in the group or other staff designated by the District Administrator should review the results of off-site and on-site analysis, including the examination of each entity in the group, and render a summary analysis of the consolidated chain group.

The reviewer should prepare a written summary analysis of the consolidated chain group's condition and include a brief description of the scope of its operations, earnings and capital adequacy. Adverse comments common to several institutions in the group should be discussed in detail. See Attachment C for guidelines in preparing the written analysis. A copy of the completed review should be retained in each affected bank's file. If the chain contains one or more nondelegated banks, a copy of the written analysis should be forwarded to the appropriate division in Washington.



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The summary analysis may serve as a basis for updating individual supervisory strategies and for deciding the frequency of future coordinated examinations by the District. In any event, the analysis of the chain should be updated at least annually. The District Administrator or designee should also determine the need for more frequent updates of the analysis depending on the overall condition of the chain.

## ORIGINATING OFFICE

Chief National Bank Examiner's Office, Commercial Examinations Division, (202) 447-1165.

Michael Patriarca  
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## **Related Links**

- [Data Format](#)
- [Proposed System of Records](#)
- [Summary Analysis](#)