

AL 99-5

Subject: Year 2000 and Systems Integration Considerations in  
Corporate Application Decisions

Date: May 4, 1999

TO: Chief Executive Officers of All National Banks and Federal  
Branches and Agencies, Department and Division Heads, and  
All Examining Personnel

#### REFERENCE

This advisory letter supersedes Advisory Letter 98-1 dated  
January 20, 1998.

#### PURPOSE

The purpose of this advisory is to alert bankers and examiners to  
the following:

The OCC is clarifying how it will evaluate Year 2000  
preparedness in connection with corporate applications for  
significant expansion of existing operations or entry into  
the national banking system;

Corporate applications for significant expansionary activity  
must address Year 2000 preparedness and systems integration  
issues;

The OCC may approve conditionally or deny an application for  
expansionary activity if those activities could jeopardize  
the bank's ability to achieve Year 2000 readiness; and

Banks with less than satisfactory Year 2000 ratings may be  
subject to supplemental filing requirements (SFR).

#### POLICY

It is the OCC's policy to assess the impact of a corporate  
transaction on the overall safety and soundness of an applicant  
bank. Year 2000 preparedness and systems integration factors are  
important considerations in determining the overall condition of  
an institution. Therefore, the OCC considers these factors in  
reviewing corporate filings.

The OCC has determined that many types of corporate applications  
have the potential to divert resources from Year 2000  
preparedness and create systems integration concerns. These  
applications include significant expansionary activities, as well  
as de novo charters, conversions, and the establishment of  
federal branches and agencies. Examples of potentially

significant expansionary activities are: the establishment or  
purchase of multiple branches; the establishment of  
technologically reliant operating subsidiaries, such as a data  
processing or electronic authentication centers; and business  
combinations.

## YEAR 2000 APPLICATION CONSIDERATIONS

Through a series of advisories, the OCC has provided guidance and key milestones with which banks may assess their progress in becoming Year 2000 ready. A corporate filing that contains potentially significant systems integration or Year 2000 implications should include a discussion of the bank's current level of compliance with this guidance and how its proposed activity will effect its ongoing efforts. In the case of a conversion application, the OCC also will consult with the institution's current regulator as to its current state of preparedness.

If an application raises significant supervisory or policy concerns, the OCC may deny or conditionally approve the activity. With regard to Year 2000 concerns, the OCC will deny or conditionally approve an application where the proposed activity or transaction may have a material adverse effect on Year 2000 remediation efforts of a national bank. Specific conditions, enforceable under 12 U.S.C. 1818, could include requirements and time frames for specific remedial actions, such as requiring separate computer systems, as well as specific measures for assessment and evaluation of the bank's Year 2000 status or system integration progress.

## BANKS SUBJECT TO SUPPLEMENTARY FILING REQUIREMENTS

Banks with less than satisfactory Year 2000 performance may expect increased OCC scrutiny of corporate activities. The OCC will assess the applicant bank's plans to remedy any Year 2000 deficiencies or system integration concerns, and its financial and managerial ability to do so. As appropriate, formal and informal OCC enforcement documents addressing Year 2000 deficiencies may impose supplemental filing requirements (SFR) for certain corporate transactions. The SFR will restrict a bank's ability to use the no-notice, no-application or after-the-fact provisions of 12 CFR Part 5. In most cases, a bank subject to an SFR will be required to file a standard application.

CONTACTS

Questions related to Year 2000 considerations in corporate applications should be directed to Crystal Maddox at (202) 874-5060. For further information on overall Year 2000 issues, contact Mark O'Dell, director for Year 2000 Supervision Policy at (202) 874-2340.

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