

RESCINDED

Classification of Assets

Program

This document and any attachments are superseded by the Comptroller's Handbook - Rating Credit Risk.

EXAMINATION OBJECTIVES

To determine the adequacy of the association's policies and procedures for self-classification and its compliance with such policies and procedures, 12 CFR § 560.160, the Uniform Retail Credit Classification and Account Management Policy (CEO Memo 128), the Classification of Assets and Appraisal of Securities (CEO Memo 200), and the guidance in this Examination Handbook Section 260.

To evaluate the association's self-classification and monitoring of its assets, and to assess management's ability and willingness to correctly identify problem and potential problem assets in a timely manner.

To identify subinvestment quality assets that represent an inordinate risk to the association and ultimately to the deposit insurance fund.

To determine if the association maintains adequate records to substantiate its asset classification system.

EXAMINATION PROCEDURES

LEVEL I

WKP. REF.

1. Review the preceding report of examination and asset classification-related exceptions noted and determine whether management has taken appropriate corrective action.

2. Review the Matters Requiring Board Attention and Corrective Actions from the three or four previous ROEs to ensure that the board and management have taken appropriate corrective action where necessary and persistent problems have not recurred.

3. Determine the adequacy of the association's written policies for self-classification of assets.

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4. Determine the reasonableness of the association's internal asset rating system, and ascertain that internal ratings correlate to regulatory classifications.

5. Determine whether the board of directors reviews and approves the self-classification reports.

6. Determine how frequently the association reviews its assets for risk ranking/ classification purposes.

7. Compute the following ratio and compare with ratio from previous examinations:
 - Adversely classified assets to total capital plus general valuation allowances that are not already included in total capital.

8. Reconcile the list of adversely classified assets with those disclosed on financial statements and OTS reports to determine accuracy of reporting.

9. After analyzing internal records and discussing asset quality issues with management, conduct a review of a sample population and determine the appropriate classification for assets reviewed. Prepare detailed write-ups for those assets where necessary.

10. Provide a list of any additional adverse classifications to the regulator assigned to the Capital Adequacy section.

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11. Compare the list of regulator-classified assets with the association's self-classification list to determine the extent of management's knowledge of asset problems.

12. Provide management with a copy of the classifications and write-ups to assure that information presented in the write-up is correct, and determine management's concurrence with the classifications.

13. Ensure that your review meets the Objectives of this Handbook Section. State your findings and conclusions and appropriate recommendations for any necessary corrective measures on the appropriate work papers and report pages.

EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

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