

Bank:
Charter #:

Date of Exam:
Prepared By:

#17– OTHER ASSETS (Risk Focused)

ASSIGNMENT OVERVIEW

As used in this section, Other Assets include all balance sheet asset accounts not covered specifically in other areas of the examination. Often, such accounts may be immaterial to the overall financial condition of the bank. However, significant sub-quality assets may be uncovered in banks lacking proper internal controls and procedures. For additional guidance, consult [Section 3.7](#) “Other Assets and Liabilities” in the FDIC Examination Manual. The related DOB Reference Material document for this procedure identifies useful regulations, guidance, and other issuances by various regulatory authorities.

INSTRUCTIONS

Examiners must follow the requirements in the Examiner Bulletin addressing Guidelines for Procedures and Work Paper Documentation for Commercial Examinations.

All examiners performing these procedures must be listed above in the “Prepared By” section. Comments and findings for each step should be made in the comment box below each question. Reference to work paper documentation should also be included here. Documentation should be enough to create an audit trail of the examiner’s thought process and all significant findings. Indicate compliance by selecting a response from the list in the dropdown box. Any response other than “YES” will require a comment.

Based on any weaknesses or risks noted in the CORE ANALYSIS PHASE or as directed by the EIC, the applicable SUPPLEMENTAL ASSESSMENT PHASE (SAP) should also be performed. Responses should be entered in the SAP. Summarize conclusions in the CORE ANALYSIS.

Information on the Summary of Findings page must tie back to the findings noted within the procedure. The SEIC/EIC will determine which information in the Summary of Findings will be included in the Report of Examination.

LPAQ

The LPAQ icon indicates that this section focuses on Law, Policy and Asset Quality (LPAQ) elements within the procedure. This approach was developed to better utilize examiner resources by streamlining the procedures in a more risk-based approach. Examiners may perform the designated sections which address LPAQ when no significant issues are indicated in the prior examination or internal/external audits or identified during the planning and scoping of the examination. An examiner (FE II or higher) who is considered proficient in this area is eligible to perform the LPAQ review. **Performing the LPAQ steps does not mean that other areas are to be ignored. As always, if at any time it becomes apparent that the scope of the work performed should be expanded, then do not hesitate to do so.**

For the LPAQ review, perform the steps with the LPAQ icon; otherwise complete the CORE ANALYSIS PHASE and SUPPLEMENTAL ASSESSMENT PHASE as applicable. The SOF page should be completed and a summary rating assigned.

The EIC/AEIC should review this procedure when complete. Acknowledgement that this procedure has been reviewed by the EIC/AEIC will be noted on the SCOPE FORM.

EXAMINERS ARE RESPONSIBLE FOR EXERCISING SOUND JUDGMENT AND UTILIZING REASONABLE INVESTIGATIVE AND ANALYTICAL SKILLS TO ARRIVE AT AN ACCURATE ASSESSMENT OF THE RISK PROFILE OF THIS SEGMENT OF THE INSTITUTION’S OPERATIONS. PERFORMING ALTERNATE PROCEDURES NOT LISTED WITH THESE GUIDELINES MAY BE NECESSARY TO COMPLETE THIS RISK ANALYSIS.

CORE ANALYSIS PHASE

#17 – Other Assets

| 1. Prior Criticism | |
|--|--|
| LPAQ | <p>1. Determine whether deficiencies noted in the last examination and most recent internal/external audit have been addressed and/or corrected by management. Detail how deficiencies were corrected.</p> <p><i>Include copy of exam and/or audit exceptions and management response in work papers or summarize exceptions/criticisms below or indicate the page number in the last examination report where deficiencies are noted, if applicable.</i></p> |
| Comment: | |
| 2. Reconcile | |
| | <p>2. Reconcile material Other Assets to the GL and verify Call Report schedule RC-F. Comment on any deficiencies noted (Ensure credit balances have been transferred to other liabilities or vice versa, according to Call instructions.) <i>Include copy of reconciliation and materiality calculation in 17-A of work papers.</i></p> |
| Comment: | |
| 3. Review and Analysis | |
| LPAQ | <p>3a. If the bank booked any deferred tax asset as a result of Net Operating Losses, complete the <u>SAP</u>.</p> |
| <p>Performed SAP? Yes <input type="checkbox"/> No <input type="checkbox"/></p> | |
| Comment: | |
| LPAQ | <p>3b. If the bank has any repossessed assets, discuss with management the asset’s value to determine that the asset is reported at the lower of BV or MV. Also consider the assets condition, age, and marketing efforts, if any, to determine appropriate classifications. Comment on deficiencies and note classifications. <i>If applicable, include list of repossessed assets in 17-B of work papers.</i></p> |
| Comment: | |
| LPAQ | <p>3c. If the bank has intangible assets, complete the <u>SAP</u> section. Refer to <u>Appendix</u> for additional guidance.</p> |
| <p>Performed SAP? Yes <input type="checkbox"/> No <input type="checkbox"/></p> | |
| Comment: | |

#17 – Other Assets

| | |
|------|--|
| LPAQ | <p>3d. If the bank owns mortgage servicing rights, refer to the FDIC Examination Manual, and evaluate compliance to call report instructions and ASC Topic-860 <i>Transfers and Servicing</i>, formerly FAS 140. Document any exceptions noted.</p> |
| | <p>Compliance with ASC Topic 860: Choose an item.</p> |
| | <p>Comment:</p> |
| | <p>3e. Determine that each prepaid expense account is valid, has a remaining benefit to the bank, and is amortized over a reasonable period correlating with their estimated economic life.</p> |
| | <p>Comment</p> |
| | <p>3f. Determine the validity and benefit of any other asset account including suspense accounts. For guidance on suspense accounts, refer to Appendix. Comment on any deficiencies noted.</p> |
| | <p>Comment:</p> |
| | <p>4. Final Analysis</p> |
| LPAQ | <p>4. Complete the Summary of Findings.</p> |

SUMMARY OF FINDINGS

#17 OTHER ASSETS

Describe all strengths evident from the evaluation.

Describe all weaknesses evident from evaluation, including violations of law/regulation/rules; noncompliance with Departmental policies/guidelines; internal policy deficiencies/noncompliance; internal control weaknesses; MIS problems; and deficiencies in management supervision.

Determine why weaknesses exist and comment on management's response and plan of action. Identify bank personnel making the response.

SUMMARY RATING: Choose an item.

Provide copy of this page to EIC/AEIC. Receipt and review of this form by the EIC/AEIC will be evidenced by his/her initials in the appropriate column for this procedure on the SCOPE FORM.

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SUPPLEMENTAL ASSESSMENT PHASE

SAP

Document findings within the SAP. Summarize conclusions in the CORE ANALYSIS section.

| | DEFERRED TAX ASSETS (Q3a) |
|------|---|
| LPAQ | <p>1. For deferred tax assets which can be realized only through future taxable earnings, review for compliance with limits under <i>12 CFR 325 for regulatory capital (or 12 CFR 208, Regulation H, for Fed member banks)</i>.</p> <p>Note: Generally, the amount of deferred tax assets which may be used in calculating regulatory capital is limited to the lesser of the amount that can be realized within one year of the quarter-end report date or 10% of Tier 1 Capital.</p> <p style="text-align: center;">Net Book Value of Deferred Tax Asset _____ vs. Amount Bank Expects to Realize Within One Year _____ vs. 10% of Tier 1 Capital _____.</p> |
| LPAQ | <p>2. Determine if the amount in deferred tax assets is reasonable and realizable by reviewing the bank’s calculation performed by their accountant.</p> <p style="text-align: center;">Refer to the FDIC Risk Management Manual of Examination Policies - Section 3.7 Other Assets and Liabilities and the Glossary section of the Call Report Instruction Book.</p> |
| LPAQ | <p>3. Verify if management reassesses the value of the net deferred tax asset account at least annually and adjusts accordingly.</p> |
| LPAQ | <p>4. If any excessive amount is identified, verify that the bank either established a valuation allowance account for any temporary difference or charged off any excess amount.</p> |
| | <p>Compliance with (answer one): <i>FDIC Supervised, Non-Member 12 CFR 325:</i> Select Response Or <i>FRB Member 12 CFR 208 (Reg H):</i> Select Response</p> |
| | <p>Comment:</p> |
| | <p style="text-align: center;">Return to Core Analysis</p> |

SAP

Document findings within the SAP. Summarize conclusions in the CORE ANALYSIS.

| INTANGIBLE ASSETS (Q3c) | |
|-------------------------|--|
| LPAQ | 1. Review the bank’s work papers to determine the type of intangible. Identifiable intangible (i.e. Deposits and Loans) versus unidentifiable intangible (Goodwill). (Refer to ASC Topic 350 - <i>Intangibles—Goodwill and Other</i> , formerly FASB Statement 142, for definitions). |
| LPAQ | 2. Review calculations of intangibles to determine if values are reasonable and justified. |
| LPAQ | 3. Ensure the intangibles are being amortized correctly. Refer to ASC Topic 350 - <i>Intangibles—Goodwill and Other</i> (Formerly FASB 142) and Call Report Instructions- Glossary, Business Combinations . |
| LPAQ | 4. Determine if the value of Goodwill is tested for impairment at least annually. If an impairment of value has occurred, the asset must be written down to reflect its diminished value. (Refer to ASC Topic 350 - <i>Intangibles—Goodwill and Other</i> for guidelines for impairment testing.) <i>Include copy of impairment testing in workpapers.</i> |
| | Comments: |
| | Return to Core Analysis |

APPENDIX

GOODWILL AND INTANGIBLES

Goodwill is an unidentifiable intangible asset that is acquired in connection with a business combination accounted for as a purchase, including an acquisition of a bank to which push down accounting applies. This intangible asset is recorded on the balance sheet when the cost of an acquisition exceeds the fair value of the identifiable tangible and intangible assets acquired less the fair value of the liabilities assumed.

Some banks remain unaware of the accounting changes for the treatment of goodwill and other intangible assets. This could be a sign of an incompetent or inadequate internal audit. Goodwill should not be amortized in most cases after January 1, 2002, but should be tested for impairment annually. Core deposit intangibles should be recognized separately from goodwill in most cases. If these assets are not recognized appropriately Capital levels could be skewed.

For additional guidance refer to:

ASU 2011-08 *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*.

ASC Topic 850 – Business Combinations, formerly FAS 141, for the requirements on recognizing intangible assets separate from goodwill.

ASC Topic 350, Intangibles – Goodwill and Others, formerly FAS 142, for the accounting treatment of acquired intangibles including impairment testing.

[Call Report Instructions](#)-Glossary, Business Combinations

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APPENDIX

SUSPENSE ACCOUNTS

Consider the following:

- Items included in suspense accounts should be periodically aged and reviewed for propriety by responsible personnel.
- Proper adjustments should be made periodically to clear this account to zero.
- Stale items held in the account that are more than 30 days old should be considered for charge-off.

***Review transactions since the last examination for any large or unusual activity. Trace the origination and final disposition (if cleared) of the following:**

- Material items posted to the account.
- A series of transactions or a single day aggregating a material amount.
- Stale items as determined to be significant.

* For accounts with high activity a random sampling of transactions may be appropriate. Document the method used to determine the sample.

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