

Trust Company	Enter Name and City	Date of Exam	
Charter #		Prepared By	

#7–Capital (Risk Focused)

ASSIGNMENT OVERVIEW

Adequate capital is essential to support growth, absorb losses not covered by earnings, provide protection to fiduciary accounts, and ensure public confidence in the trust company system. The examiner’s role is to evaluate the adequacy of capital considering a company’s current condition and operations, considering growth trends, new activities, and other strategic initiatives. Both qualitative and quantitative factors are used in the evaluation of capital since a high level of capital does not necessarily guarantee adequacy. It is also important to assess the capital structure and ownership of the organization to determine the extent of potential future support from existing shareholders.

INSTRUCTIONS

Examiners must follow the requirements in the Examiner Bulletin addressing Guidelines for Procedures and Work Paper Documentation for Trust 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 is to be sufficient to allow an audit trail of the examiner’s thought process and all significant findings. Items to Consider within the core analysis are not required to be commented on unless there are significant issues. The intent is to assist the examiner in expanding their thought process and analysis of that area.

The Summary of Findings page contains strengths, weaknesses, and management’s response to the weaknesses. The SEIC/EIC should determine which comments on the Summary of Findings will be included in the Report of Examination.

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

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1. Prior Criticisms

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. *Include a copy of audit exceptions and/or prior examination criticisms and management response in work papers or indicate the page number in the prior report of examination where the deficiencies are noted, or summarize exceptions/criticisms below, if applicable.*

Comment:

2. Review and Reconciliation of Capital Accounts and Records

2a. Balance and verify the capital accounts by:

- (a) preparing or obtaining transcripts of all capital accounts since the last examination;
- (b) verifying the propriety of all entries made to capital accounts since the last examination and reviewing such for compliance to regulatory and accounting standards; and
- (c) reconciling the ending balance of each capital account to the appropriate general ledger account and the company's call report (RC-E). Appropriate general ledger accounts include:
 - Common stock
 - Preferred stock
 - Certified surplus
 - Undivided profits
 - Contingency reserves
 - Treasury stock

If any deficiencies noted, discuss with EIC and comment below. *Include a copy of the transcripts or reconciliations in 7-B of work papers.*

Deficiencies Noted?

Select Response

Comment:

2b. Review the trust company's capital structure. Check the box next to the items included in capital, if any:

- Subordinated debt instruments
- Mandatory convertible debt

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- Intangibles
- Investments in subsidiaries
- Treasury stock

Determine compliance with TFC §[182.104](#) and TAC §[21.91](#), if applicable. If non-compliance, provide comment. Refer to Call Report Instructions and the last external audit for treatment of the capital accounts.

If any boxes are checked above, indicate compliance as applicable:

Compliance With TFC §[182.104](#) Capital Notes or Debentures

Select Response

TAC §[21.91](#) Acquisition and Retention of Shares as Treasury Stock

Select Response

Comment:

2c. Review stockholders' list against transcripts for any changes in ownership since the last examination.

- Note directorate control, both individually and in aggregate.
- Identify any shareholder with 5% or more ownership/control.

Include copy of shareholder list in 7-A of work papers. Comment on changes.

If significant changes have occurred in ownership, perform the following:

- Balance the stock books to the current shareholder list.
- Describe the internal controls over the trust company's stock certificates and dividends and include a comment on frequency of audits. Determine if internal controls and audit are adequate.
- Sign and date the last outstanding certificate stub.

Comment:

2d. If a change in control has occurred as per TFC §[181.002](#), confirm compliance with TFC §[181.002](#) and §[183.001\(a\)](#), and TAC §[21.51\(a\)](#). Review correspondence and ensure appropriate approval has been granted by the Banking Commissioner. *Comment on change in control and any noncompliance.*

Change of Control?

Select Response

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If YES, indicate compliance with the following:

Control as defined in TFC § 181.002	Select Response
Change of control approved by Commissioner per TFC § 183.001(a)	Select Response
Application for Change of Control per TAC § 21.51(a)	Select Response

Comment:

2e. If dividends were paid, determine if they were properly approved by the Board of Directors as required by Texas Business Organizations Code (BOC) §[21.302](#).

Dividends Paid?	Select Response
If Yes, Board approved per BOC § 21.302	Select Response

Comment:

3. Capital Adequacy

3a. Determine if the trust company has the required restricted capital level per TFC §[182.008](#).

- Per TFC §[182.008\(a\)](#), the minimum restricted capital level is \$2M.
- Additional capital may be required based on the safety and soundness standards set forth in Section [182.008\(b\)](#) of the Texas Finance Code.

If the trust company does not meet the required restricted capital level, determine if:

- Banking Commissioner may grant a reduced capital level Per TFC §[182.008\(e\)](#),
- Trust Company is exempt per TFC §[182.011](#).

Ensure there has been no change in restricted capital that would violate the requirements set forth in the Texas Finance Code §[182.103](#).

If minimum restricted level is not maintained and condition is not due to one of exceptions or exemptions noted above, cite apparent violation, and discuss remedy with management.

Comment on noncompliance and/or deficiencies.

Indicate Compliance with the following:

Minimum restricted capital of not less than \$2M per	Select Response
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TFC § 182.008(a)	
Additional restricted capital required per TFC § 182.008 (b)	Select Response
Reduced minimum capital level approved by Commissioner per TFC § 182.008(e)	Select Response
Trust company is exempt per TFC § 182.011	Select Response
Change in restricted capital per TFC § 182.103	Select Response

Comment:

3b. Determine if the level of restricted capital is sufficient to protect the company. Consider the safety and soundness issues listed in Section [182.008\(b\)](#) of the Texas Finance Code and any other relevant factors, such as, but not limited to:

- Policies and/or practices to promote capital preservation
- Earnings performance and accretion
- Dividend plans and/or practices
- Availability of other capital sources

If it is determined that the level of capital may be insufficient or marginal, and no capital plan is in place, discuss the need for development and adoption of a capital plan with management and the Board. Address the comprehensiveness of a capital plan, which should include an outline of sources of capital augmentation other than earnings accretion, growth plans, dividend guidelines, directorate financial capacity, and holding company strength.

Comment on management's plan to address these issues.

If a capital plan is in place, evaluate whether the alternative means of capital are realistic and attainable. Also, assess and comment on compliance with the adopted plan.

Comment:

3c. Determine if the trust company is engaged in any nontraditional investments or has a concentration in investments or activities that pose a threat to capital. Comment on the risks.

Confer with the examiner performing the asset quality procedure to assist with determining if any concentrations are present in the balance sheet, such as correspondent bank accounts, investment securities, loans, and fixed assets.

Verify compliance with TFC §[184.002](#) and §[184.101](#) regarding investment limits.

Evaluate whether management adequately monitors and manages the investment in or concentrations in nontraditional securities.

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Indicate compliance with the following:

Investment in facilities per TFC §[184.002](#)

Select Response

Investment in equity or investment securities per TFC §[184.101](#)

Select Response

Comment:

4. Final Analysis

4. Prepare a Capital comment and assign a rating for the trust company. Refer to [Supervisory Memorandum 1002](#) for definitions of ratings. Complete the [Summary of Findings](#) page.

SUMMARY OF FINDINGS

#7- CAPITAL

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 RISK RATING ASSIGNED: Select Rating

Ratings: 1-Strong; 2-Satisfactory; 3-Less than satisfactory; 4-Deficient; 5-Critically deficient; NR-Not Rated



Ratings
Definitions.xlsm

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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