



Comptroller of the Currency
Administrator of National Banks

Other Assets (and Other Liabilities)

Comptroller's Handbook
(Section 220)

Narrative and Procedures - March 1991

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Assets

Other Assets (and Other Liabilities) (Section 220)

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Other Assets

“Other assets,” as used in this section, includes all balance sheet asset accounts not covered specifically in other areas of the supervisory activity. Often, such accounts may be quite insignificant in the overall financial condition of the bank. However, significant sub-quality assets may be uncovered in banks lacking proper internal control and procedures.

Banks frequently group a variety of accounts as “other assets” on their balance sheets. Banks must report several of these accounts, such as investment in unconsolidated subsidiaries, customer liability on outstanding acceptances, and intangible assets as separate line items on Call Reports. The FFIEC’s *Instructions for Preparation of Consolidated Reports of Condition and Income* contain descriptions of these accounts.

Schedule RC-F on the Consolidated Report of Condition itemizes income earned, not collected on loans and net deferred income taxes (debit balance) as other assets. The schedule also includes a catchall heading of “other.” Common other assets accounts, as defined in the Call Report instructions, include purchased residual values on collateralized mortgage obligations, prepaid expenses, accrued interest on securities purchased, and repossessed personal property. Internally developed computer software also may be reported as “other” other assets if the bank intends to market it. Banks should account for this software according to FASB Statement 86. The carrying value should be amortized based on estimated revenues, with the minimum annual amortization equal to the straight-line amount over the remaining estimated economic life of the product.

Banks are permitted to report net deferred tax charges as other assets on their Reports of Condition. But their deferred charges must not exceed taxes previously paid that are potentially available through carry-back of net operating losses. Deferred taxes represent the tax effects of income or expense items reported in one period for financial statement purposes and in another for tax purposes (i.e., timing differences). Under certain circumstances, banks may report higher net income to the taxing authorities than on their Reports of

Income. The tax effect of this difference appears as a deferred tax benefit in the Report of Income and a deferred tax charge in the Report of Condition. Banks should first net deferred tax benefits against previously recorded or current deferred tax liabilities. If the combined balances result in a net deferred tax charge, the potential for realizing the asset must be evaluated. Since it is difficult to predict when, or if, realization of this benefit will occur, OCC policy restricts recognizing deferred tax charges to the amount the bank could recover through net operating loss carry-backs. Banks should reassess any net deferred tax charges at least annually as net operating loss carry-backs expire. Any excess deferred tax charge carried by the bank must be charged off immediately.

Another “other asset” is an investment in a community development corporation (CDC) or a community development project. Twelve CFR 7.7480 allows banks to record their investment as an asset provided that: (a) the project must be of a predominantly civic, community, or public nature and not merely private and entrepreneurial and (b) the bank’s investment in any one project does not exceed 2 percent of its capital and surplus and its aggregate investment in all such projects does not exceed 5 percent of its capital and surplus. The OCC reviews national bank investments in CDCs or community development projects under the interpretive ruling as outlined in Banking Circular 185 (REV) and determines whether these investments meet OCC’s public purpose guidelines. As a result of the review process, the OCC issues an opinion letter describing the structure, purposes, and amount of the investment, and indicates whether the proposed investment is consistent with the interpretive ruling. The letter includes any conditions applicable to the investment.

“Other assets” covered by Interpretive Ruling 7.7480 may include equity or debt investments in a wholly-owned CDC, a bank CDC with multiple investors, a certain type of limited partnership, a nonbank community or economic development organization, or other public purpose endeavors. Equity investments in community development projects made by a national bank through a limited partnership should not result in bank participation in the management of the partnership.

In determining compliance with investment limitations contained in the interpretive ruling, computation of a bank’s covered investment in a CDC or

community development project should generally include all direct and indirect investments, including equity investments, loans made directly to the corporation or project, and any commitments made by the bank in the corporation's or project's behalf. Commitments may include unfunded loan commitments, letters of credit, and other forms of contingent liability in favor of the corporation or project.

In some cases, when a loan or extension of credit is made to a community development corporation or project, or to an entity which invests in such projects, a question may arise as to whether the loan should be counted toward the bank's legal lending limit (12 U.S.C. 84 and 12 C.F.R. Part 32), or the investment limitations contained in Interpretive Ruling 7.7480. As a general rule, the loan will fall under the lending limit provisions if: (a) it is reflected as a loan on the bank's books (rather than in the "other assets" category) and (b) it was made in the ordinary course of business, in conformance with the bank's normal underwriting standards and lending policies. If these two criteria are not met, the limitations in Interpretive Ruling 7.7480 will apply to the loan, provided the corporation or project meets OCC public purpose guidelines. The circumstances surrounding a particular loan and the conditions set forth in any OCC opinion letter should also be considered in determining which rules govern.

Banks may on occasion invest in a CDC or community development project by providing an asset other than cash. The examiner should determine whether the asset being transferred is properly valued at the time of transfer, which would be the lower of book value or fair market value. Any opinion letter from the OCC should provide for this form of investment and documentation should support that the asset will be used for public purposes as defined by the OCC.

A bank's loans to a bank CDC affiliate that is not a subsidiary or to a community development project managed by a bank CDC affiliate may be covered by the volume and collateral restrictions imposed by 12 U.S.C. 371(c). When a bank's compliance with these limitations is reviewed, such loans should be considered if the amounts are significant.

The Comptroller has ruled that Minbanc Capital Corporation is a community development project, although its scope is broader than a single community, and that a national bank may purchase its stock subject to the limitations of 12 CFR 7.7480. Minbanc Capital Corporation is a nondiversified closed-end

investment company created at the suggestion of the American Bankers Association. The company's primary objective is to make needed capital funds available to qualifying minority owned banks so they may better contribute to the growth of their communities and the nation. Banks must have a minimum of 3 years operating history to be eligible for the funds.

National banks must record all intangible assets purchased according to generally accepted accounting principles. Intangible assets should be amortized over their estimated useful life, not to exceed 15 years, except for the core deposit intangible and organizational costs that cannot be amortized over periods exceeding 10 years and five years respectively. Intangible assets must be amortized uniformly depending upon the type of asset and circumstances in which it was acquired. However, the cumulative amortization amount should never be less than would be determined using the straight-line method.

Banks should use an accelerated method of amortization for intangible assets when the asset's value is based upon declining earning amounts. This would require amortizing larger amounts in the earlier years of the asset's estimated life. Examples of intangible assets requiring accelerated amortization include the core deposit intangible and the intangible resulting from acquisition of mortgage servicing rights. Acceleration is required because the core deposit value calculations are generally based upon a declining deposit base with correspondingly declining earnings. Similarly, mortgage servicing revenues decline in proportion to decreases in mortgage loan balances.

Accelerated amortization is also required when the fair value of the liabilities assumed in a business combination exceeds that of the identifiable assets acquired. Such amortization should be calculated according to Statement of Financial Accounting Standards 72, Accounting for Certain Acquisitions of Banking and Thrift Institutions.

Banks may use the straight-line method of amortization for all other intangible assets, or when it does not differ materially from the required accelerated method. Organizational costs should be amortized using the straight-line method.

Banks should periodically (at least annually) review each intangible asset to determine whether there has been any permanent impairment of value. When

there has been impairment:

- The asset must be written down to reflect its diminished value.
- Appropriate changes should be made in the amortization period or method.

Additionally, if a significant amount of an acquired bank's assets are sold or disposed of, the applicable portion of the intangible assets associated with them should be written off as an expense of the sale. For example, if a branch of an acquired bank is subsequently sold, the acquired goodwill and core deposit intangible associated with this branch should be expensed.

Types of other assets frequently found in banks are the various temporary holding accounts such as suspense, interoffice, teller, transit and bookkeeping differences having debit balances. Banks should use those accounts only for temporary recording until the offsetting entry is received or fully identified and posted to the proper account. Nothing should be allowed to remain in those accounts for any significant length of time; usually no more than a few business days. All difference accounts should be closed out at least quarterly.

Examiners assigned to "other assets" should obtain the detailed breakdown of all such accounts reflected on the bank's financial statement or subsidiary ledgers. When an account can best be examined by examiners assigned to other areas of the bank, those examiners should be informed of the accounts. Remaining accounts should be reviewed and evaluated by examiners assigned to this section. The major factor in deciding which accounts to review is materiality. The examiner should not try to analyze the nature and quality of each individual item, especially if it is so small that it has no significant impact on the overall soundness of the bank or the quality of its earnings. A bank with good control and review systems will periodically purge all uncollectible or unreconcilable items. Accordingly, an item by item review by the examiner often is of little benefit to the bank or to the supervisory activity. However, the examiner must frequently go beyond the general ledger control accounts and scan the underlying subsidiary ledgers to determine that posting errors and/or the common practice of netting certain accounts against each other does not cause significant balances to go unnoticed because of lack of proper detail.

The examiner, upon finding other asset accounts, must design specific procedures for review and testing to fit the particular account and situation and must document the scope of the activity in the working papers. The possible

account titles that could be included in this category are unlimited. Other assets run the gamut from redeemed food stamps to art objects, antiques, and coin and bullion.

The National Bank Act provides that national banks may exercise their powers “by buying and selling exchange, coin and bullion.” National banks are prohibited from buying or selling coins if their value is not based on metallic content. They may, however, purchase an inventory of commemorative coins, minted by the U.S. Bureau of the Mint, for sale to customers. The term “bullion” refers only to gold and silver in bar or ingot form. Platinum, or any other precious metal, is not considered bullion. In most cases, banks handle gold bullion of 0.995 or 0.9995 purity. Gold of lesser purity may have limited marketability. National banks should have available, for inspection by national bank examiners, evidence of the purity of the bullion they have in inventory. Before the bank begins marketing the products, the board of directors should formally authorize the program and establish appropriate policies and procedures.

The Glass-Steagall Act prohibits investment in or underwriting of securities of companies engaged in gold activities. The bank should report coin and bullion owned for its own account as “Other Assets.” Future and forward transactions involving coin and bullion should be shown as contingent liabilities in memoranda accounts. The bank should revalue its net position in coin and bullion to the lower of cost or market value monthly, with gains or losses included in current operations.

Other Liabilities

“Other liabilities,” as used in this section, includes all balance sheet liability accounts not covered specifically in other areas of the supervisory activity. Often they may be quite insignificant to the overall financial condition of a bank. As used by the bank, this category may include numerous accounts not included under other specific liability categories. In some banks, individual accounts are established for control purposes and appear as other liabilities on the balance sheet. For reporting, however, these accounts must be in specific liability categories or netted from related asset categories.

Schedule RC-G of the Consolidated Report of Condition itemizes expenses

accrued and unpaid, net deferred income taxes (credit balance), and minority interest in consolidated subsidiaries. It also includes a catchall heading of "all other." Expenses accrued and unpaid represent periodic charges to income based on anticipated or contractual payments of funds to be made at a later date. They include such items as interest on deposits, dividends, taxes, and expenses incurred in the normal course of business. There should be correlation between the amount being accrued on a daily or monthly basis and the amount due on the stated or anticipated payment date.

Certain other liabilities, such as securities borrowed, due to foreign branches, minority interest in consolidated subsidiaries, and dividends declared but not yet payable, can be more appropriately examined with other areas, and are discussed in other sections of the handbook.

Examiners assigned to "other liabilities" should obtain the bank's break down of those accounts and, when they are to be examined with other areas, must ensure that examiners in charge of those areas receive the necessary information. The remaining accounts should be reviewed and evaluated by examiners assigned to this section.

The major emphasis in examining this area should be the adequacy of the controls and procedures employed by the bank in promptly recording the proper amount of liability. If these accounts do not receive proper attention, they may be misused, either intentionally or inadvertently. Unless properly supervised, they may be used to conceal shortages that should have been detected immediately. For instance, fraudulent entries in suspense or inter-branch accounts could be rolled over every other day to avoid stale dates, and thereby shortages of any amount could be effectively concealed for indefinite periods of time.

Unlike "other assets," other liability accounts with even small balances may be significant. Scanning account balances may disclose a recorded liability, but does not aid in determining whether liability figures are accurate. Therefore, a review of information obtained from examiners working with the board's minutes, minutes of committees, and responses from legal counsel handling litigation could be very important and might reveal a major understatement of liabilities. The determination of accurate balances in other liability accounts requires an in depth review of source documents or other accounts from which the liability arose.

Other liability accounts should be reviewed to determine that the bank is properly recognizing deferred taxes when there are temporary differences in the recognition of income and expenses between the books and the income tax returns. The review should also determine that matters such as pending tax litigation, equipment contracts, and accounts payable are recorded properly and are being discharged in accordance with their terms and requirements.

Various miscellaneous liabilities may be found in accounts, such as undisbursed loan funds, deferred credits, interoffice, suspense, and other titles denoting pending status. The number of possible items that could be included are unlimited. The review of those accounts should determine that they are used properly and that all such items are clearing in the normal course of business. Because of the variety of such accounts, the examiner must develop specific examination procedures to fit the particular account and situation.

Other Assets (and Other Liabilities) (Section 220)

Examination Procedures

1. Complete or update the Other Asset and Other Liability section of the Internal Control Questionnaire.
2. Based on the evaluation of internal controls and the work performed by internal/external auditors (see separate program), determine the scope of the examination. Select from among the following examination procedures those steps that are necessary to evaluate the other assets and liabilities of the bank.
3. Test for compliance with policies, practices, procedures and internal controls in conjunction with performing the selected examination procedures and obtain a listing of any deficiencies noted in the latest review done by internal/external auditors from the examiner assigned "Internal and External Audits," and determine if appropriate corrections have been made.
4. Perform appropriate verification procedures.
5. Obtain a list of other asset and other liability accounts.
6. Obtain a trial balance of other asset and other liability accounts, including a detailed listing of the interbank accounts and:
 - a. Agree or reconcile balances to department controls and general ledger.
 - b. Review and reconciling items for reasonableness.
7. Scan the trial balances for:
 - a. Misclassifications of accounts and, if any are noted, discuss reclassification with appropriate bank personnel and furnish list to appropriate examining personnel.
 - b. Large, old or unusual items and, if any are noted, perform additional

procedures as deemed appropriate, being certain to appraise the quality of other assets.

- c. Other asset items that represent advances to related organizations, directors, officers, employees or their interests, and if any are noted, inform the examiner assigned to "Loan Portfolio Management."
8. Determine that amortizing other asset accounts are being amortized over a reasonable period correlating to their economic life.
9. If the bank has outstanding customer liability under letters of credit, obtain and forward a list of name and amount to the examiner assigned to "Loan Portfolio Management."
10. If the bank has recorded any intangible as an asset, determine that the bank:
 - a. Properly records and accounts for each intangible asset.
 - b. Reviews the account annually to determine any permanent impairment of its value.
11. Review the balance of any other liabilities owed to officers, directors or their interests and investigate, by examining applicable supporting documentation, whether they have been used to:
 - a. Record unjustified amounts.
 - b. Record amounts for items unrelated to bank operations.
12. Develop, and note in working papers, any special programs considered necessary to properly analyze any remaining other asset or other liability account.
13. Test for compliance with applicable laws, rulings, regulations, and OCC banking issuances by performing the following for:

12 USC 24 (Eighth)—Corporate Powers;

12 CFR 7.7480—Investments in Community Development Projects; and

BC 185 (REV)—Community Development Corporation and Investment Program:

- a. Review other asset accounts and inquire of management whether they have received an opinion letter from the OCC to determine if the bank has made any investments in community development projects or corporations.
 - b. Determine whether the investment continues to be of a predominately civic, community, or public nature by reviewing any OCC opinion letter, other documentation, and through discussion with management. Compare the project's or organization's activities to those described in any OCC opinion letter sent to the bank. If no opinion letter is available, the examiner should consult with the Customer and Industry Affairs Division and discuss whether the OCC has reviewed the investment and whether it meets the OCC's public purpose guidelines.
 - c. For investments other than cash, determine whether the asset transferred reflected the lower of book or fair market value and that documentation exists supporting its use for public purposes as defined by the OCC.
 - d. Compare outstanding investment and commitments to invest with the total capital and surplus and determine whether:
 - For any one project, the ratio is not more than 2 percent.
 - For aggregate, the ratio is not more than 5 percent.
 - e. If the bank has exceeded the investment limitations, in addition to requesting corrective action, advise the Customer and Industry Affairs Division, since the bank may request review of additional investments.
14. When examining and evaluating the bank's investment in, and loans to, community development corporations, nonperforming or classified assets

held by the corporation should first be related to the capital structure of the corporation and then be used as a basis for classifying the bank's investment in, and loans to, that corporation.

15. For other asset items that are determined to be stale, abandoned, uncollectible or carried in excess of estimated values and for other liability items that are determined to be improperly stated, request management to make the appropriate entries on the bank's books.
16. Prepare, in appropriate report form, and discuss with appropriate officer(s):
 - a. Violations of laws, rulings, and regulations.
 - b. Criticized other assets.
 - c. The adequacy of written policies relating to other assets and other liabilities.
 - d. Recommended corrective action when policies, practices, or procedures are deficient.
17. Prepare a memorandum and update the work programs with any information that will facilitate future examinations.

Other Assets (and Other Liabilities) (Section 220) Internal Control Questionnaire

Review the bank's internal controls, policies, practices, and procedures over "other assets and other liabilities." The bank's systems should be documented in a complete and concise manner and should include, where appropriate, narrative descriptions, flowcharts, copies of forms used, and other pertinent information.

Other Asset Policies and Procedures

1. Has the bank formulated written policies and procedures governing other asset accounts?

Other Asset Records

2. Is the preparation of entries and posting of subsidiary other asset records performed or tested by persons who do not also have direct control, either physical or accounting, of the related assets?
3. Are the subsidiary other asset records, if any, balanced, at least quarterly, to the appropriate general ledger accounts by persons who do not also have direct control, either physical or accounting, of the related assets?
4. Is the posting of other asset accounts to the general ledger approved prior to posting by persons who do not also have direct control, either physical or accounting, of the related assets?
5. Are worksheets or other supporting records maintained to support prepaid expense amounts?
6. Are supporting documents maintained for all entries to other assets?
7. Are the items included in suspense accounts aged and reviewed for propriety regularly by responsible personnel?

Receivables

8. Are receivables billed at regular intervals (if so, state frequency _____)?
9. Are receivables reviewed, at least quarterly, for collectability by someone other than the originator of the entry?
10. Is approval required to pay credit balances in receivable accounts?
11. Do credit entries to a receivables account, other than payments, require the approval of an officer independent of the entry preparation?

Other Procedures

12. Does charge-off of a non-amortizing other asset initiate review of the item by a person not connected with entry authorization or posting?
13. Do review procedures, where applicable, provide for an appraisal of the asset to determine the propriety of the purchase or sale price?

Other Asset Conclusion

14. Is the foregoing information an adequate basis for evaluating internal control in that there are no significant additional internal auditing procedures, accounting controls, administrative controls, or other circumstances that impair any controls or mitigate any weaknesses indicated above (explain negative answers briefly, and indicate conclusions as to their effect on specific examination or verification procedures)?
15. Based on a composite evaluation, as evidenced by answers to the foregoing questions, internal control is considered _____ (good, medium, or bad).

Other Liabilities Policies and Procedures

1. Has the bank formulated written policies and procedures governing the other liability accounts?

Other Liability Records

2. Does the bank maintain subsidiary records of items comprising other liabilities?
3. Is the preparation of entries and posting of subsidiary other liability records performed or tested by persons who do not also originate or control supporting data?
4. Are subsidiary records of other liabilities balanced at least monthly to appropriate general ledger accounts by persons who do not also originate or control supporting data?
5. Are the items included in suspense accounts aged and reviewed for propriety regularly by responsible personnel?

Other

6. Does the bank book obligations immediately on receipt of invoices or bills for services received?
7. If the bank uses a Federal Reserve deferred credit account, is the liability for incoming "Fed" cash letters booked immediately upon receipt?
8. Does the bank book dividends that have been declared but are not yet payable?
9. Are invoices and bills proved for accuracy prior to payment?
10. Are invoices and bills verified and approved by designated employees prior to payment?
11. Are procedures established to call attention, within the discount period, to invoices not yet paid?
12. Does the bank have a system of advising the board of directors of the acquisition and status of major other liability items?

13. Are all payroll tax liabilities agreed to appropriate tax returns and reviewed by an officer to ensure accuracy?

Other Liability Conclusion

14. Is the foregoing information an adequate basis for evaluating internal control in that there are no significant additional internal auditing procedures, accounting controls, administrative controls, or other circumstances that impair any controls or mitigate any weaknesses indicated above (explain negative answers briefly, and indicate conclusions as to their effect on specific examination or verification procedures)?
15. Based on a composite evaluation, as evidenced by answers to the foregoing questions, internal control is considered _____ (good, medium, or bad).

Other Assets (and Other Liabilities) (Section 220)

Verification Procedures

1. Obtain or prepare detailed lists of other assets and other liabilities including a breakdown of subsidiary ledgers.
2. Within each category of other assets, use an appropriate sampling technique to select specific items, and:
 - a. Where appropriate, verify the original balance of the item from an invoice or other supporting document.
 - b. Examine documentation for additions to any given item since the previous examination.
 - c. Where amortization is applied to a given item, review the bank's computations for the period since the previous examination to determine mathematical accuracy and the reasonableness of estimated life.
 - d. Determine the reasonableness of the current balance by reviewing the remaining estimated life, collectability, etc.
 - e. Prepare any special programs considered necessary to properly analyze and test specific accounts selected.
3. Determine that interoffice and intercompany transactions clear in the normal course of business by actually reviewing the entries to the account for several days and examining the debit and credit tickets. Special attention should be given to entry dates, authorizing initials, and validity or reasonableness of the item.
4. For accrual records:
 - a. Review bank's system of recording liabilities for interest, taxes, and other expenses.
 - b. Review the balance of interest accrued to outstanding interest bearing

liabilities for reasonableness.

- c. Review the balance of the reserve for taxes, both current and deferred, for reasonableness by examining the bank's worksheets and computations.
 - d. Agree amounts recorded for dividends to excerpts of minutes of meetings of the board of directors.
 - e. Review the reasonableness and completeness of the balance reflected for reserves for other expenses.
5. Within each general category of other liabilities, use an appropriate sampling technique to select specific items for further review, and, for each item selected, determine that the balance is reasonably stated by examining supporting documentation.
6. Review accounts not sampled for items that appear unusual in nature or amount, and examine supporting documentation.
7. Using an appropriate sampling technique, select expense checks issued since the supervisory activity date, and:
- a. Determine whether the expense was incurred before or after the activity date by examining the vendor's invoice or other supporting documentation.
 - b. For expenses incurred prior to the activity, trace the amount to the detail list of other liabilities.
 - c. Discuss with appropriate bank officials any significant items incurred prior to and recorded after the supervisory activity date.