



Audit Related Product



OIG-11-065

SAFETY AND SOUNDNESS: Material Loss Review Glossary

April 11, 2011

Office of
Inspector General

Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

April 11, 2011

OFFICE OF
INSPECTOR GENERAL

OIG-11-065

**Glossary of Terms Used by the Office of Inspector General in Reports on
Treasury-Regulated Financial Institution Failures**

Introduction and Purpose

The Department of the Treasury Office of Inspector General (OIG) is required to conduct reviews of failed financial institutions that were regulated by the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS).¹

For material loss reviews completed between 2008 and 2010, a glossary of key terms and their definitions was included in each report. Going forward, rather than include such a glossary of key terms and definitions in each report, we will underline key terms where first used in all of our reports on Treasury-regulated financial institution failures and direct the reader to this document for definitions. Where a term is unique to OCC or OTS, we have indicated that in the definition. It should be noted that effective July 21, 2011, pursuant to P.L. 111-203, the functions of OTS are being transfer to OCC and other federal banking agencies. We plan to assess the impact of the transfer of functions to the terms and definitions in this document and will revise and reissue the document as appropriate.

We shared a draft of this document with OCC and OTS officials and their comments were considered in this final version.

For any questions pertaining to this document, please contact the Treasury OIG, Office of Audit, at (202) 927-5400.

Exhibit

¹ Section 38(k) of the Federal Deposit Insurance Act requires that the Inspector General for the primary federal regulator of a failed institution conduct a material loss review when the estimated loss to the Deposit Insurance Fund is material. Effective July 21, 2010, section 38(k) defines a loss as material if it exceeds \$200 million for calendar years 2010 and 2011, \$150 million for calendar years 2012 and 2013, and \$50 million for calendar years 2014 and thereafter (with a provision that the threshold can be raised temporarily to \$75 million if certain conditions are met). Prior to this change, section 38(k) defined a loss as material if it exceeded the greater of \$25 million or 2 percent of the institution's total assets. For losses that are under the threshold for a material loss review, the cognizant Inspector General is required to perform a review of the financial institution failure that is limited to (1) ascertaining the grounds identified by the federal banking agency for appointing the Federal Deposit Insurance Corporation as receiver and (2) determining whether any unusual circumstances exist that might warrant a more in-depth review of the loss.

| | |
|---|--|
| 10-K | An annual report filed by publicly traded companies with the Securities and Exchange Commission presenting a financial overview of the company during the year. |
| 10-Q | A comprehensive report of a company's performance that must be submitted quarterly by all public companies to the Securities and Exchange Commission. In the 10-Q, firms are required to disclose relevant information regarding their financial position. |
| Acquisition, development, and construction loan | A loan that allows the borrower to purchase real property, put in the necessary infrastructure (streets, lights and utilities), and then build stores or other buildings. Acquisition, development and construction loans are often used by developers of large properties, such as strip malls or shopping centers. |
| Adversely classified asset | Also referred to as a <i>classified asset</i> , an asset that is rated as <i>substandard</i> , <i>doubtful</i> , or <i>loss</i> . <i>Substandard</i> assets are inadequately protected by the current worth and paying capacity of the obligor or of the collateral pledged, if any. A <i>doubtful</i> asset has all the weaknesses of a substandard asset with the added characteristic that the weaknesses make collection or liquidation in full questionable and improbable. A <i>loss</i> asset is considered uncollectible and of such little value, that continuation as a recorded asset is not warranted. |

| | |
|-------------------------------------|---|
| Allowance for loan and Lease losses | An estimate of uncollectible amounts used to reduce the book value of loans and leases to the amount expected to be collected. It is established in recognition that some loans in the institution's overall loan and lease portfolio will not be repaid. |
| Alt-A loan | A mortgage made to a borrower that typically does not involve income verification or documentation of income, assets, or employment. Instead, the approval of the loan is based primarily on an individual applicant's credit score. |
| Asset/liability committee | A senior management committee in a bank or thrift institution responsible for overseeing the institution's actions relating to interest rate risk and liquidity risks. The committee may be responsible for overseeing controls to manage price and compliance risks. Among other activities, the committee typically reviews interest rate risk exposures and approves management strategies for investment securities activities, derivatives transactions, deposit programs, and lending initiatives. It evaluates the bank's liquidity position and assesses how anticipated changes may affect that position. Asset/liability management committees in more complex banks may approve trading strategies and review trading positions in securities, derivatives, or foreign exchange. |
| Board resolution (OTS) | A document designed to address one or more specific concerns identified by OTS and adopted by a thrift's board of directors. A board resolution is considered an informal (non-public) enforcement action. |

| | |
|-------------------|---|
| Brokered deposit | Any deposit that is obtained, directly or indirectly, from a deposit broker. The financial institution solicits deposits by offering rates of interest that are significantly higher than the rates offered by other insured depository institutions in its normal market area. Use of brokered deposits is limited to well-capitalized insured depository institutions and, with a waiver from the Federal Deposit Insurance Corporation, to adequately capitalized institutions. Undercapitalized institutions are not permitted to accept brokered deposits. (See 12 U.S.C. §1831(f) and 12 C.F.R. 337.6.) |
| Call report (OCC) | A quarterly report of income and financial condition that banks file with their regulatory agency. The contents of a call report include consolidated detailed financial information on assets, liabilities, capital, and loans to executive officers, as well as income, expenses, and changes in capital accounts. On February 3, 2011, the federal banking agencies announced a change from quarterly thrift financial reports to quarterly call reports. Savings associations are required to file quarterly call reports, beginning with the March 31, 2012, report date. Effective on that date, all schedules of the thrift financial report will be eliminated. |
| CAMELS | Federal banking agencies use the Uniform Financial Institutions Rating System, or "CAMELS," to assign composite and component ratings to financial institutions. An institution's composite CAMELS rating integrates ratings from six component areas— <u>c</u> apital adequacy, <u>a</u> sset quality, <u>m</u> anagement, <u>e</u> arnings, <u>l</u> iquidity, and <u>s</u> ensitivity to market risk. The ratings range from 1 to 5 with 1 |

being the highest rating and least supervisory concern.

- Capital restoration plan A plan submitted to the appropriate federal banking agency by an undercapitalized insured depository institution. A capital restoration plan specifies the steps the institution is to take to be adequately capitalized and the levels of capital to be attained during each year in which the plan is in effect. It also specifies how the institution is to comply with the restrictions or requirements then in effect, the types and levels of activities in which the institution is to engage, and any other information that the federal banking agency may require.
- Cease and desist order (OTS) An order issued by OTS that requires the thrift to correct a violation of a law or regulation, or an unsafe or unsound practice. OTS may issue a cease and desist order in response to violations of federal banking, securities, or other laws by thrifts or individuals or if it believes that an unsafe and unsound practice or violation is about to occur. A cease and desist order is a formal (public) enforcement action.
- Cease and desist order (OCC) An order issued by OCC that sets out in article-by-article form restrictions and remedial measures necessary to correct unsafe or unsound practices or violations in the bank in order to return it to a safe and sound condition. There is no legal distinction between a consent order and a cease and desist order: a consent order is a cease and desist order issued by consent. A cease and desist order is a formal (public) enforcement action.

| | |
|------------------------------------|---|
| Classified asset | <p>Also referred to as an <i>adversely classified asset</i>, an asset that is rated as <i>substandard</i>, <i>doubtful</i>, or <i>loss</i>. <i>Substandard</i> assets are inadequately protected by the current worth and paying capacity of the obligor or of the collateral pledged, if any. A <i>doubtful</i> asset has all the weaknesses of a substandard asset with the added characteristic that the weaknesses make collection or liquidation in full questionable and improbable. A <i>loss</i> asset is considered uncollectible and of such little value, that continuation as a recorded asset is not warranted.</p> |
| Collateralized mortgage obligation | <p>Bonds that are a type of mortgage-backed security representing claims to specific cash flows from large pools of home mortgages. The streams of principal and interest payments on the mortgages are distributed to the different classes of the collateralized mortgage obligation interests, known as tranches, according to a complicated deal structure. Each tranche may have different principal balances, coupon rates, prepayment risks, and maturity dates (ranging from a few months to 20 years). Collateralized mortgage obligations are often highly sensitive to changes in interest rates and any resulting change in the rate at which homeowners sell their properties, refinance, or otherwise pre-pay their loans. Investors in these securities may not only be subjected to this prepayment risk, but also exposed to significant market and liquidity risks.</p> |
| Commercial real estate loan | <p>A loan for real property where the primary or significant source of repayment is from rental income associated with the property or the proceeds of the sale, refinancing, or permanent</p> |

| | |
|---------------------------------|---|
| | financing of the property. Commercial real estate loans include construction and real estate development loans, land development loans, and commercial property loans (such as for office buildings and shopping centers). |
| Community Reinvestment Act | Enacted by Congress in 1977, the act encourages insured depository institutions to help meet the credit needs of their communities for housing and other purposes, particularly in neighborhoods with low or moderate incomes, while maintaining safe and sound operations. |
| Compliance examination | The part of an insured depository institution examination that includes an assessment of how well the institution manages compliance with consumer protection and public interest laws and regulations, including the Bank Secrecy Act. |
| Comprehensive examination | A combined examination of an insured depository institution's safety and soundness and its compliance with applicable rules and regulations. |
| Concentration (of credit) (OTS) | A group of similar types of assets or liabilities that, when aggregated, exceed 25 percent of a thrift's core capital plus allowance for loan and lease losses. Concentrations may include direct, indirect, and contingent obligations or large purchases of loans from a single counterparty. |
| Concentration (of credit) (OCC) | A situation where direct, indirect, or contingent obligations exceed 25 percent of a bank's capital structure. |
| Concentration risk | Risk in a loan portfolio that arises when a disproportionate number of an insured depository |

institution's loans are concentrated in one or a small number of financial sectors, geographical areas, or borrowers.

Consent order (OCC)

The title given by OCC to a cease and desist order that is entered into and becomes final through the board of directors' execution, on behalf of the bank, of a stipulation and consent document. Its provisions are set out in article-by-article form and prescribe restrictions and remedial measures necessary to correct deficiencies or violations in the bank in order to return it to a safe and sound condition. A consent order is a formal (public) enforcement action.

Construction permanent loan

Construction permanent loans finance the building of a new property. This type of financing carries a regular amortization schedule, and does not require any refinancing after completion of the building work.

Conventional mortgage

A residential mortgage not backed by federal insurance or guarantee. In the secondary mortgage market, Fannie Mae and Freddie Mac are the major purchasers of conventional loans.

Core capital

A component of Tier 1 capital, core capital primarily consists of stockholder's equity.

Correspondent channel

An arrangement through which a correspondent lender both processes and funds loans, then sells them to a wholesale lender, usually under a previous commitment by the wholesaler to purchase a certain amount of loans at an agreed-upon interest rate.

| | |
|------------------------|--|
| Criticized Assets | A term that is generally recognized as including both <i>special mention assets</i> and <i>classified assets</i> . A special mention asset is an asset with potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. A <i>classified asset</i> is an asset that is rated as <i>substandard</i> , <i>doubtful</i> , or <i>loss</i> . <i>Substandard</i> assets are inadequately protected by the current worth and paying capacity of the obligor or of the collateral pledged, if any. A <i>doubtful</i> asset has all the weaknesses of a substandard asset with the added characteristic that the weaknesses make collection or liquidation in full questionable and improbable. A <i>loss</i> asset is considered uncollectible and of such little value, that continuation as a recorded asset is not warranted. |
| De novo bank (OCC) | A newly chartered bank that has been open for less than 3 years. |
| Debt-to-income | Ratio of the borrower's monthly obligations compared with the borrower's gross income. An insured depository institution's board of directors should establish underwriting standards that include prudent ratios appropriate for products in the institution's lending area that do not expose the institution to inordinate levels of credit risk. |
| Deposit Insurance Fund | A fund that is devoted to insuring the deposits of individuals by the Federal Deposit Insurance |

Corporation. The Deposit Insurance Fund is set aside to pay back the money lost due to the failure of an insured depository institution. The Deposit Insurance Fund is funded by insurance payments from insured depository institutions.

District Supervisory
Review Committee (OCC)

A committee in each OCC district that ensures OCC bank supervision and enforcement policies are applied effectively and consistently. Each committee advises the OCC deputy comptroller for the district on bank supervision and enforcement cases by providing recommendations on supervisory strategies and enforcement actions.

Division of Resolutions
and Receiverships

A division within the Federal Deposit Insurance Corporation charged with resolving failing and failed insured depository institutions, including ensuring that depositors have prompt access to their insured funds.

Early payment default

In the mortgage industry, the term refers to a mortgage that becomes 90 or more days delinquent or goes into default during its first year.

Equity capital

Invested money that, in contrast to debt capital, is not repaid to the investors in the normal course of business. It represents risk capital staked by the owners through purchase of an insured depository institution's common stock. Its value is computed by estimating the current market value of everything owned by the institution, from which the total liabilities are subtracted. On the balance sheet, equity capital is listed as stockholders' equity or owners' equity. Equity capital is the initial

funding (called contributed capital or paid-in capital) needed to charter a bank or thrift; a cushion against operating losses, such as bad debt; and a source of protection for depositors' money.

Federal Home Loan Bank
System

A system of 12 regional cooperative banks created by Congress from which member institutions borrow funds to finance housing, economic development, infrastructure, and jobs. The system provides liquidity to member institutions that hold mortgages in their portfolios and facilitates the financing of mortgages by making low-cost loans, called advances, to members. Advances with a wide variety of terms to maturity, from overnight to long-term, are available to members and are collateralized. Advances are designed to prevent any possible loss to Federal Home Loan Banks, which also have a super lien (a lien senior or superior to all current and future liens on a property or asset) when insured depository institutions fail. To protect their position, Federal Home Loan Banks have a claim on any of the additional eligible collateral in a failed institution. In addition, the Federal Deposit Insurance Corporation has a regulation that reaffirms the priority of Federal Home Loan Banks, which can demand prepayment of advances when institutions fail.

FICO score

A credit score provided to lenders by credit reporting agencies to reflect information that each credit bureau keeps on file about the borrower. The scores are produced from software developed by the Fair Isaac Corporation. The scores take into consideration borrower information such as (1) timeliness of payments; (2) the length of time

credit has been established; (3) the amount of credit used versus the amount of credit available; (4) the length of time at present residence; and (5) negative credit information such as bankruptcies, charge-offs, and collections. The higher the credit score is, the lower the risk to the lender.

Field visit (OTS)

A visit conducted to review specific areas of concern that OTS has about an insured depository institution.

Formal agreement (OCC)

A bilateral document signed by the board of directors on behalf of the bank and an authorized OCC official. It is a formal (public) enforcement action and legally recognized document issued pursuant to the OCC's enforcement authority under 12 USC 1818(b). Violations of a formal agreement can provide the legal basis for assessing civil money penalties against directors, officers, and other institution-affiliated parties. However, unlike a consent order, formal agreements are not enforceable through the federal court system.

Full-scope examination

Examination activities performed during the supervisory cycle that (1) are sufficient in scope to assign or confirm an insured depository institution's CAMELS composite and component ratings, (2) satisfy core assessment requirements, (3) result in conclusions about an institution's risk profile, (4) include onsite supervisory activities, and (5) generally conclude with the issuance of a report of examination.

Generally accepted
accounting principles

A widely accepted set of rules, standards, and procedures established by the Financial Accounting Standards Board for reporting financial information.

Government-sponsored
enterprises

Financial services corporations that are federally sponsored to enhance the flow of credit to the agriculture and home finance sectors of the economy. The Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association, Federal Farm Credit Banks, Agriculture Credit Bank, Federal Agriculture Mortgage Corporation, and the 12 Federal Home Loan Banks are collectively referred to as government-sponsored enterprises.

Home equity line of credit

A home equity line of credit is a form of revolving credit in which one's home serves as collateral.

Individual minimum
capital ratio (OCC)

Established under OCC authority, a minimum level of capital for a banking institution that OCC considers necessary or appropriate in light of the particular circumstances of the institution. When a bank's capital is impaired, OCC may require the bank to establish this ratio requiring the bank to achieve and maintain capital levels higher than regulatory minimums. Appropriate minimum capital ratios for an individual bank cannot be determined solely through the application of a rigid mathematical formula or wholly objective criteria.

The decision is based in part on subjective judgment grounded in agency expertise.

Interest carry

The portion of a construction line of credit that is set aside to advance interest expense until the construction project is completed. Interest carry is considered part of the cost of the construction project until it is completed.

Interest rate risk

The possibility that the value of an asset will change adversely as interest rates change. Interest rate risk results from the differences in the way interest rate changes affect the values of assets, liabilities, and off-balance sheet instruments.

Interest reserve

An account established by the lender to periodically advance funding to pay interest charges on the outstanding balance of a loan.

Internet Certificates of
Deposits or Internet CD

Certain deposits are attracted over the Internet, through CD listing services, or through special advertising programs offering premium rates to customers with little or no other banking relationship. Although these deposits may not fall within the technical definition of brokered deposits, they are similar to brokered deposits. That is, they are high-yielding products attractive to rate sensitive customers who do not have any other significant relationship with the bank.

Line sheet

A working paper document used by examiners to review a bank loan. The line sheet initially contains basic information about a loan, including the original amount, the current balance, and the monthly payment. Examiners then use the line

sheet as they review the loan file, documenting their analysis, the disposition of the loan, and the reasons for that disposition.

| | |
|------------------------------|--|
| Loan exception | Conditions applicable to a loan that are contrary to an insured depository institution's written loan policy, procedures or underwriting guidelines or where documentation needed to legally enforce the loan agreement is missing. |
| Loan participation | The sharing of a loan by a group of insured depository institutions that join together to make a loan too large for any one of the institutions to handle. Also known as participation financing, loan participations are arranged through correspondent banking networks in which smaller institutions buy a portion of the overall financing packages. Loan participation is a convenient way for smaller institutions to acquire an interest in loans that would otherwise exceed their legal lending limits. |
| Loan presentation memorandum | A document that a loan officer prepares for the loan committee of a financial institution when a loan is initially approved, extended, or renewed. A loan presentation memorandum typically includes the purpose of the credit, the sources of repayment, the terms of the note, a description of the project, the strength and weaknesses of the credit, and other analyses of the project. |
| Loan production office | An office of an insured depository institution that takes loan applications and arranges financing for corporations and small businesses but does not accept deposits. Loan applications taken by loan |

production offices are subject to approval by the lending institution.

Loans to one borrower
regulation

A regulation that imposes lending limitations on an insured depository institution to avoid the risk of concentrating too great a portion of its assets in any single borrower or in borrowers related in a common enterprise. It limits the aggregate dollar amount of an institution's loans to each borrower but does not limit the number of loans within that aggregate dollar amount. (See 12 C.F.R. 560.93.)

Loan-to-value ratio

A ratio for a single loan and property calculated by dividing the total loan amount at origination by the market value of the property securing the credit plus any readily marketable collateral or other acceptable collateral. In accordance with Interagency Guidelines for Real Estate Lending Policies established by the federal banking supervisory agencies, institutions' internal loan-to-value limits should not exceed the legal lending limit: (1) 65 percent for raw land; (2) 75 percent for land development; (3) 80 percent for commercial, multifamily, and other nonresidential loans; and (4) 85 percent for one-family to four-family residential loans. The guidelines do not specify a limit for owner-occupied one-family to four-family properties and home equity loans. However, when the loan-to-value ratio on such a loan equals or exceeds 90 percent at the time of origination, the guidelines state that the institution should require mortgage insurance or readily marketable collateral.

**Matter requiring
attention (OCC)**

A bank practice noted during an examination that deviates from sound governance, internal control, and risk management principles, which may adversely affect the bank's earnings or capital, risk profile, or reputation if not addressed. It may also result in substantive noncompliance with laws and regulations, internal policies or processes, OCC supervisory guidance, or conditions imposed in writing in connection with the approval of any application or other request by a bank. In some circumstances, a matter requiring attention could also be an unsafe or unsound practice.

Mortgage-backed security

A debt obligation that represents claims to the cash flows from pools of mortgage loans, most commonly on residential property. There are two primary forms of mortgage-backed securities. *Agency mortgage-backed securities* are guaranteed by a government agency or government-sponsored enterprise such as Fannie Mae or Freddie Mac, while *non-agency mortgage-backed securities* are issued by banks and financial companies not associated with a government agency.

Mortgage banking

A term that refers to the origination, sale and servicing of mortgages. A mortgage banker takes an application from the borrower and issues a loan to the borrower. The mortgage banker then sells the loan to an investor and may retain or sell the servicing of the loan that includes collecting monthly payments, forwarding the proceeds to the investors who purchased the loan, and acting as the investor's representative for other issues and problems with the loan.

| | |
|-------------------------------|--|
| Mortgage broker | An intermediary that brings mortgage borrowers and mortgage lenders together but does not use its own funds to originate mortgages. |
| Mortgage servicing asset | An asset net of any valuation allowances that result from contracts to service loans secured by real estate (that have been securitized or are owned by others). |
| Mortgage servicing rights | A contractual agreement where the rights to service an existing mortgage are sold by the original lender to another party who specializes in servicing mortgages. Common services rights include the right to collect mortgage payments monthly, set aside taxes and insurance premiums in escrow, and forward interest and principal to the mortgage lender. |
| Multi-variable stress testing | Testing designed to determine whether an insured depository institution has enough capital to weather the impact of adverse developments. |
| Negative amortization | Negative amortization occurs when the monthly payments on a loan do not cover all of the interest owed. The interest not paid is added to the principal loan balance and is referred to as capitalized interest. With negative amortization, borrowers may owe more than they did at the beginning of the loan even after they have made many payments. Additionally, the borrower's equity in the property will decrease over time unless the property value increases at a higher rate than negative amortization. |
| No-doc loan | Short for "no-documentation loan," this term typically refers to a residential mortgage loan for |

which the applicant provides a minimum amount of information – name, address, Social Security number, and contact information for an employer, if there is one. The underwriter decides on the loan based on the applicant's credit history, the appraised value of the house, and size of down payment.

Nonaccrual loan

A loan in which interest accruals have been suspended because full collection of principal is in doubt or interest payments have not been made for a sustained period of time.

Nonconforming loan

Unlike a *conforming loan*, a nonconforming loan does not have terms and conditions that follow the guidelines set forth by Fannie Mae and Freddie Mac. These two government-sponsored enterprises purchase mortgage loans (conforming loans) within the guidelines from mortgage lending institutions, package the mortgages into securities, and sell the securities to investors. Fannie Mae and Freddie Mac guidelines establish the maximum loan amount, borrower credit and income requirements, down payment, and suitable properties.

Nonperforming loan

A loan that is not earning income and for which either (1) payment of principal and interest is no longer anticipated, (2) principal or interest is 90 days or more delinquent, or (3) the maturity date has passed and payment in full has not been made.

Nonrecourse loan

A loan that is secured by collateral (e.g., a home or building), but for which the borrower is not held personally liable. If the lender seizes the property and the sale does not cover the loan, the borrower is not responsible for the shortfall.

| | |
|---------------------------------|--|
| Nontraditional mortgage | A broad term describing mortgages that do not take the traditional form. Traditional mortgage loans, both fixed and adjustable rate, typically require that the borrower's monthly payment cover both interest and a reduction in principal, allowing for a reasonably predictable amortization over the life of the mortgage. Nontraditional mortgages include, but are not limited to, interest-only mortgages, payment option adjustable rate mortgages, and subprime mortgages. |
| Notice of charges (OTS) | A notice issued by OTS initiating a proceeding to obtain a permanent cease and desist order when OTS has determined that there is a violation, an unsafe or unsound practice, or a threatened violation or practice that is likely to result in significant dissipation of assets, weakening of the thrift's condition, or prejudice to the interests of the depositors before completion of the cease and desist order. |
| Option adjustable rate mortgage | A form of adjustable rate mortgage (ARM) that allows the borrower to select from various loan payment options each month. These mortgages are typically structured with a low introductory interest rate and as many as four major types of payment options: a fully amortizing 30-year payment, a fully amortizing 15-year payment, an interest-only payment, and a minimum payment option that adjusts after the first 12 months. Option ARM(s) are also called flexible payment ARMs. |
| Order of Investigation | An administrative action initiating an investigation of a bank or thrift for possible insider abuse, |

mortgage fraud, manipulation of records, violation of laws, and unsafe and unsound banking practices. The action grants OCC and OTS personnel authority to issue subpoenas and take sworn statements.

Other real estate owned

Real properties that an insured depository institution has acquired that do not constitute its facilities. Such properties include real estate acquired in full or partial satisfaction of a debt previously contracted and are subject to specific holding periods, disposition requirements, and appraisal requirements.

Other-than-temporary
impairment charge

A loss that must be recognized when it is determined that an impairment is other than temporary. The amount recognized equals the difference between the cost of an investment and its fair value.

Part 30 safety and
soundness plan (OCC)

Refers to 12 CFR part 30, an informal (nonpublic) enforcement action in which OCC informs a bank that it failed to meet established safety and soundness standards and requires it to submit a compliance plan with planned corrective actions and completion dates.

Past-due loan

A loan where payments are 30 to 90 days delinquent.

Payment shock

A very large increase in the payment on an adjustable rate mortgage, resulting in potential inability of the borrower to afford the payment.

Prompt corrective action

A framework of supervisory actions for insured depository institutions that are not adequately capitalized. It was intended to ensure that action is taken when an institution becomes financially troubled in order to prevent a failure or minimize resulting losses. These actions become increasingly severe as an institution falls into lower capital categories. The capital categories are well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. (See 12 U.S.C. § 1831o.) The prompt corrective action minimum requirements are as follows:

| Capital Category | Total Risk- Based | and | Tier 1/ Risk- Based | and | Tier 1/ Leverage |
|-----------------------------------|--|-----|---------------------------|-----|--|
| Well-capitalized ^a | 10% or greater | | 6% or greater | | 5% or greater |
| Adequately capitalized | 8% or greater | | 4% or greater | | 4% or greater (3% for 1-rated) |
| Undercapitalized | Less than 8% | or | Less than 4% | or | Less than 4% (except for 1- rated) |
| Significantly undercapitalized | Less than 6% | or | Less than 3% | or | Less than 3% |
| Critically undercapitalized | Has a ratio of <u>tangible equity</u> to total assets that is equal to or less than 2 percent. Tangible equity is defined in 12 C.F.R. § 565.2(f). | | | | |

^a To be well-capitalized, an institution also cannot be subject to a higher capital requirement imposed by the Office of Thrift Supervision and Office of the Comptroller of the Currency.

| | |
|--------------------|--|
| Recourse | With respect to financial assets, the legal ability of the purchaser of an asset to make a claim against the seller of the asset if the debtor defaults. With respect to real estate, it is the ability of a lender to claim money from a borrower in default in addition to the property pledged as collateral. With respect to <i>full recourse</i> , the term refers to the clause in an asset sales agreement whereby a bank selling a loans or loan participation to an investor agrees to fully reimburse the investor for losses resulting from the purchased loan. |
| Regulation W | A Federal Reserve System regulation that establishes certain restrictions on and requirements for transactions between federally insured depository institutions and their affiliates. Regulation W requires that transactions between member banks meet certain stipulations, such as: (1) the credit extended to an affiliate bank must be secured; (2) transactions with any one affiliate total no more than 10 percent of an institution's capital; and (3) transactions to all affiliates total no more than 20 percent of an institution's capital. |
| Risk-based capital | A measure of an insured depository institution's financial strength, taking into account capital reserves for loans, investments, and certain other items that are off the balance sheet. In general, assets with higher credit risk require more capital in reserve than low-risk assets. The aim of risk-based capital is to (1) encourage institutions to keep a sufficient cushion of equity capital, including common stock, to support balance sheet assets; (2) include off-balance sheet items in the computation of capital adequacy; (3) eliminate disincentives to holding low-risk, liquid assets; and |

(4) set uniform international guidelines for bank capital adequacy. Risk-based capital can be measured as the sum of Tier 1 capital plus Tier 2 capital.

Risk-weighted asset

An asset calculation used in determining the capital requirement for an insured depository institution. Risk-weighted assets are computed by adjusting each asset class for risk in order to determine an insured depository institution's real world exposure to potential losses. Regulators then use the risk-weighted total to calculate how much loss-absorbing capital an institution needs to sustain it through difficult markets.

Special mention

An asset with potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Special Supervision
Division (OCC)

A headquarters division of OCC that supervises critical problem national banks through rehabilitation or other resolution processes such as orderly failure management or the sale, merger, or liquidation of such institutions.

Stated income loan

A non-traditional loan for which the lender does not verify the income stated on the loan application. Typically, however, the lender does verify employment and a 2-year consistent employment

history (same employer and/or same business) must exist.

Structured investment securities

A term used to refer to many of the products that are part of the securitization market. In an asset-backed security, cash flows from the underlying assets (collateral) can be allocated to investors in different ways. For example, they can be passed through directly to investors or divided up according to specific rules and investor demand, thereby creating "structured" securities that allow investors to invest in products that meet their specific risk appetites and collateral and earnings requirements.

Subprime loan (OTS)

A loan to a borrower with (1) a credit bureau score of 660 or below; (2) two or more 30-day delinquencies in the last 12 months, or one or more 60-day delinquencies in the last 24 months; (3) bankruptcy in the last 5 years, and/or (4) a judgment, foreclosure, repossession, or charge-off in the last 24 months.

Substandard asset

An asset that is inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Assets classified as substandard must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. A substandard asset presents the distinct possibility that the institution holding it will sustain some loss if the asset's deficiencies are not corrected.

Supervisory directive (OTS)

An informal (non-public) enforcement action by OTS that directs a thrift to cease an activity or

take an affirmative action to remedy or prevent an unsafe or unsound practice.

Tangible equity

The tangible equity of an insured depository institution is the institution's total assets minus intangible assets minus total liabilities. Examples of an intangible asset include goodwill, bank card service marks, and patents.

Targeted examination (OCC)

A bank examination that does not fulfill all of the requirements of a statutory full-scope examination. Targeted examinations may focus on one particular product, function, or risk, or they may cover specialty areas.

Thrift financial report (OTS)

A financial report that thrifts are required to file quarterly with OTS. The report includes detailed information about the institution's operations and financial condition and must be prepared in accordance with generally accepted accounting principles. The thrift financial report is similar to the call report required of commercial banks. On February 3, 2011, the federal banking agencies announced a change from quarterly thrift financial reports to quarterly call reports. Savings associations are required to file quarterly call reports, beginning with the March 31, 2012, report date. Effective on that date, all schedules of the thrift financial report would be eliminated.

Tier 1 capital

The portion of an insured depository institution's capital that is common shareholder's equity (common stock, surplus, and retained earnings), noncumulative perpetual preferred stock, and minority interests in the equity accounts of consolidated subsidiaries.

Tier 2 capital

The portion of an insured depository institution's capital that is subordinated debt, intermediate-term preferred stock, cumulative and long-term preferred stock, and a portion of the allowance for loan and lease losses. The portion of the allowance for loan and lease losses includes amounts reflecting lower valuations of asset or latent but unidentified losses present on the balance sheet. The amount of such provisions or reserves will be limited to a maximum of 1.25 percent.

**Transaction Account
Guarantee Program**

A component of the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program. The Temporary Liquidity Guarantee Program was established in October 2008 as part of a coordinated effort by the Federal Deposit Insurance Corporation, the Department of the Treasury, and the Federal Reserve System to address unprecedented disruptions in credit markets and the resultant inability of financial institutions to fund themselves and make loans to creditworthy borrowers. The Temporary Liquidity Guarantee Program has two distinct components: (1) the Debt Guarantee Program and (2) the Transaction Account Guarantee Program. The Federal Deposit Insurance Corporation guarantees certain senior unsecured debt issued by participating entities under the Debt Guarantee Program and all funds held in qualifying noninterest-bearing transaction accounts at participating insured depository institutions under the Transaction Account Guarantee Program. Originally scheduled to expire on December 31, 2009, FDIC extended the Transaction Account

Guarantee Program until December 31, 2010. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, P.L. 111-203, extended the Transaction Account Guarantee Program until December 31, 2012, and made participation in this program mandatory for all insured depository institutions.

Troubled condition

A condition in which an insured depository institution meets any of the following criteria: (1) the regulator has notified the institution in writing that it has been assigned a CAMELS composite rating of 4 or 5; (2) the institution is subject to a capital directive, cease and desist order, a consent order, a formal written agreement, or a prompt corrective action directive relating to its safety and soundness or financial viability; or (3) the regulator based on information available to it, had informed the institution in writing of its troubled condition. Such information may include current financial statements and reports of examination.

Troubled Condition and Directive Letter (OTS)

An informal enforcement action issued to an institution that it has one or more of the following conditions that put it into a troubled condition: (1) self-dealings or other conflicts of interest, (2) unsafe and unsound practices, (3) management incompetence, (4) lack of director participation, or (5) disregard for the regulatory process.

Troubled Asset Relief Program

A program established under the Emergency Economic Stabilization Act of 2008 with the goal of stabilizing the U.S. financial system and preventing a systemic collapse. The act gave the

Troubled Asset Relief Program the authority to purchase and make fund commitments to purchase troubled assets from financial institutions.

Trust preferred securities

Trust preferred securities are long-term debt instruments, typically with 30-year interest-only payments. Trust preferred securities are accounted for as minority interest and are positioned between debt and equity on the balance sheet.

Uniform Bank Performance Report

An analytical tool created by the Federal Financial Institutions Examinations Council to help supervise and examine financial institutions. A Uniform Bank Performance Report is produced quarterly for each commercial bank that is supervised by the Board of Governors of the Federal Reserve System, FDIC, or OCC. The performance and composition data in the report are presented in the form of ratios, percentages, and dollar amounts and are computed mainly from call reports submitted by the bank. The Uniform Bank Performance Report also compares a bank's performance and balance sheet structure with similarly sized banks.

Uniform Standard of Professional Appraisal Practice

The generally accepted standards for the professional appraisal practice in North America. The Uniform Standard of Professional Appraisal Practice (USPAP) contains standards for all types of appraisal services. Standards are included for real estate, personal property, business and mass appraisal. The Financial Institutions Reform,

Recovery and Enforcement Act of 1989 recognizes USPAP as the general accepted appraisal standards and requires USPAP compliance for appraisers in federally related transactions. State Appraiser Certification and Licensing Boards; federal, state, and local agencies, appraisal services; and appraisal trade associations require compliance with USPAP.

Washington Supervision
Review Committee (OCC)

A committee that advises OCC senior deputy comptrollers on bank supervision and enforcement cases by providing recommendations on supervisory strategies and enforcement actions. The committee is chaired by the Deputy Comptroller for Special Supervision.

Wholesale channel

An arrangement through which an intermediary, such as a mortgage broker, offers loans directly to the consumer.

Wholesale funding

Funding obtained by insured depository institutions through such sources as federal funds, public funds, Federal Home Loan Bank advances, the Federal Reserve System's primary credit program, foreign deposits, and brokered deposits.

Department of the Treasury

Office of Strategic Planning and Performance Management
Office of Accounting and Internal Control

Office of the Comptroller of the Currency

Liaison Officer

Office of the Thrift Supervision

Liaison Officer

Office of Management and Budget

OIG Budget Examiner