

Self-Assessment Review

Replaced - See OCC 2021-49

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Three factors make-up an assessment of an institution's risk in participating in a large dollar wire transfer system: creditworthiness, operating controls, and credit policies. The following instructions for making the assessment call for separate assessments of each factor.

The institution and the regulator should each make this assessment. Self-assessment is not required if the institution adopts a *de minimis* cap, does not incur daylight overdrafts, qualifier for the exempt category, or does not participate on any large dollar wire transfer networks and is willing to accept a zero cross-system net debit cap.

I. Creditworthiness (Steps 1 through 9)

Step 1: Answer the following questions about each of the primary factors in an assessment of creditworthiness (asset quality, capital adequacy, and earnings):

A. In determining the institution's asset quality self-assessment rating, have management and the directorate considered:

	Yes	No
1. Comments from the latest supervisory examination report on asset quality and management effectiveness?	___	___
2. Level, distribution, and severity of classified assets?	___	___
3. The level and composition of nonaccrual and reduced-rate assets?	___	___
4. Loss history and adequacy of valuation allowances?	___	___
5. Ability to foresee, administer and correct problem credits?	___	___
6. Concentrations?	___	___
7. Other factors?	___	___

B. In determining the institution's capital adequacy self-assessment rating, have management and the directorate considered:

1. Comments from the latest supervisory examination report?	___	___
2. Capital guidelines established by regulators?	___	___
3. Asset quality and off-balance-sheet activity?	___	___
4. Growth?	___	___
5. Profitability?	___	___

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6. Other factors?	—	—
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C. In determining the institution's earnings self-assessment rating, have management and the directorate considered:

1. Comments from the latest supervisory examination report?	—	—
2. Return on assets?	—	—
3. Quality of earnings?	—	—
4. Growth?	—	—
5. Asset quality?	—	—
6. Provisions for loan losses?	—	—
7. Tax considerations?	—	—
8. Interest-rate sensitivity?	—	—
9. Earnings history?	—	—
10. Dividend requirements?	—	—
11. Capital adequacy?	—	—
12. Other factors?	—	—

Step 2: Answer the following questions for each primary factor.

Asset Quality

Capital Adequacy

Earnings

	<u>Asset Quality</u>		<u>Capital Adequacy</u>		<u>Earnings</u>	
	Yes	No	Yes	No	Yes	No
1. Does the institution consider available peer group and other data for institutions with similar operating characteristics, such as consumer lending or wholesale activities?	—	—	—	—	—	—
2. Do peer group comparisons generally support the self-assessment according to the guidelines in the Primary Factor Rating Form (Step 3)?	—	—	—	—	—	—

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Step 3. Both the institution and the examiner should assign an overall rating to each primary factor. Use the Primary Factor Rating Form.

Step 4: Answer the following questions for each primary factor.

	<u>Asset Quality</u>		<u>Capital Adequacy</u>		<u>Earnings</u>	
	Yes	No	Yes	No	Yes	No
1. Is the institution's self-assessment rating consistent with guidelines?	___	___	___	___	___	___
2. If the institution's self-assessment rating is not consistent with guidelines, has management developed sufficient data to justify the inconsistency?	___	___	___	___	___	___

Step 5: Answer the following questions about to the two modifying factors (liquidity and holding company and affiliates):

A. In determining the effect of the institution's liquidity position, have management and the directorate considered:

	Yes	No
1. Comments from the latest supervisory examination report addressing liquidity and overall condition of the institution?	___	___
2. Management controls and policies?	___	___
3. Borrowing history?	___	___
4. Adequacy of policies and procedures?	___	___
5. The institution's asset/liability structure?	___	___
6. Off-balance-sheet funding sources and needs?	___	___

B. If applicable, in determining the position of the institution's holding company and affiliates' self-assessment modifier, have management and the directorate considered:

1. Comments from the most recent supervisory examination report?	___	___
2. Factors relating to capital, asset quality, and earnings of the holding company and affiliates?	___	___
3. Management?	___	___

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Step 6: Based on the review of modifying factors, both the institution and the regulator should assign a level to each modifying factor.

Rating Form for 1) Liquidity and 2) Holding Company and Affiliates

Liquidity

Institution Examiner

- | | | |
|-------|-------|--|
| _____ | _____ | (o) Liquidity is neutral. (Generally means the institution has a stable funding base with a reasonable cushion of assets or untapped funding sources available to meet contingencies.) |
| _____ | _____ | (-) Liquidity is negative. (Generally means the institution has a funding vulnerability or is experiencing or has experienced a deterioration in the normal funding base.) |
| _____ | _____ | (+) Liquidity is positive. (Generally means the institution is extremely liquid and has demonstrated asset liquidity as well as sound liability policies.) |

Comments: _____

Holding Company and Affiliates

Institution Examiner

- | | | |
|-------|-------|---|
| _____ | _____ | (o) Influence is neutral. (Generally means holding company was characterized as being in satisfactory condition at its most recent examination.) |
| _____ | _____ | (-) Influence is negative. (Generally means holding company may be experiencing or expecting significant losses at the parent or in its nonthrift affiliates and debt service requirements necessitate high dividend payout ratio at depository institution subsidiaries and affiliates.) |
| _____ | _____ | (+) Influence is positive. (Generally means holding company has demonstrated record of active support.) |

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Step 7: Answer the following questions for each modifying factor:

	Liquidity		Holding Company and Affiliates	
	Yes	No	Yes	No
1. Does the institution consider available peer group and other available data for institutions with similar operating characteristics, such as consumer lending or wholesale activities?	___	___	___	___
2. Do peer group comparisons generally support the self-assessment?	___	___	___	___
3. Is the institution's self-assessment rating consistent with guidelines?	___	___	___	___
4. If the institution's self-assessment rating is not consistent with guidelines, has management developed sufficient data to justify the inconsistency?	___	___	___	___

Step 8: As a first step in integrating the assessments of the primary and modifying factors, answer the following questions:

1. Do procedures employed by management and directorate to determine the creditworthiness self-assessment appear reasonable?	___	___	___	___
2. Are conclusions adequately documented?	___	___	___	___

Step 9: In the space provided, integrate the assessments of the primary and modifying factors into one combined rating for creditworthiness, using one of the following categories: excellent, very good, adequate, or below standard. The combined rating should be no higher than the lowest rating assigned in Step 3, adjusted for the ratings in Step 6 as well as the answers to the questions in Steps 4, 7, and 8. Comment on any adjustments necessary.

Combined Rating for Creditworthiness

Comments _____

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II. Operating Controls, Policies, and Procedures (Steps 10 through 18)

Note: There are two components to the assessment of the institution's operating controls, policies, and procedures. These are assessments of the institution's monitoring positions: (1) relative to net debit caps and (2) for customers.

Steps 10 through 14 are for assessing the institution's monitoring position relative to net debit caps. In addition, the regulator should conduct the applicable operations activities addressed in the Retail Payment Systems Booklet and the Wholesale Payment Systems Booklet of the Federal Financial Institutions Examination Council (FFIEC) IT Examination Handbook.

Step 10: Complete the Average Daily Activity Table and answer the questions immediately following it.

Note: This table should reflect the institution's average daily volume on each system in which it participates.

Average Daily Activity Table				
System	Dollars <u>Sent</u>	Percent <u>of Total</u>	Dollars <u>Received</u>	Percent <u>of Total</u>
CHIPS	_____	_____	_____	_____
Fedwire	_____	_____	_____	_____
Total	_____	100%	_____	100%

	Yes	No
1. Does the institution update the table at a frequency consistent with its fluctuations in activity?	_____	_____
2. Does the table correctly reflect current level of activity?	_____	_____
3. Are all large dollar payments systems considered when completing the table?	_____	_____

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Step 11: Answer the following questions about individual system monitoring:

	Yes	No
1. What is the monitoring frequency currently used?	—	—

System	<u>Real Time</u>	<u>Interim (Note frequency)</u>	<u>No Interim</u>
CHIPS	—	—	—
Fedwire	—	—	—

2. Does the institution update the table at an acceptable frequency?	—	—
3. Is the monitoring capability appropriate for the volume of funds transfer activity?	—	—

Step 12: Answer the following questions:

1. Does the institution monitor its payments activity on a cross-system basis?	—	—
2. At what frequency?	—	—

Real time monitoring _____ Periodic (note frequency) _____ No interim monitoring _____

3. Is this information reflected in the self-assessment file?	—	—
4. Does the information reflect current activity?	—	—

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Step 13: Using the information from Steps 10 through 12, rate the institution according to the guidelines in the following form:

Rating Form for Monitoring Position Relative to Net Debit Caps	
_____	<p>Strong: 95% of total dollars sent and received are monitored on a real time basis, or at least every 15 minutes; and</p> <p>– A cross-system calculation of the institution's net debit/credit position is computed and compared with established limits on a real time basis, or at least every 15 minutes.</p>
_____	<p>Satisfactory: 80% of the total average daily dollars volume sent is monitored on a real time basis, or at least every 30 minutes; and</p> <p>– A cross-system calculation of institution's net debit/credit position is computed and compared with established limits on a real time basis, or at least every 15 minutes.</p>
_____	<p>Unsatisfactory: Any other condition.</p>

Step 14: Make any necessary adjustments to the rating in Step 13, based on the following:

1. Provide a brief discussion of the institution's monitoring system, analyzing the appropriateness of the monitoring procedures in use for the volume and nature of the institution's wire transfer activity.
2. Is the institution's self-assessment rating consistent with the guidelines?
3. If the institution's self-assessment rating is not consistent with the guidelines, has management developed sufficient data to justify the conclusions?

Comment on any adjustments necessary _____

Note: Steps 15 through 17 are for assessing the institution's monitoring positions for customers.

Step 15: Answer the following questions:

	Yes	No
1. Has the institution identified customers who regularly participate in a large volume of wire transfer activity or in frequent large wire transfers?	_____	_____
2. Are criteria for placement of names on the list reasonable?	_____	_____
3. Can the institution monitor these accounts, taking into account the source of significant transactions?	_____	_____

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4. Do the monitoring systems include the opening collected balance?	___	___
5. Does the institution have a system for updating the customer's balance to reflect intra-day activity? * Is the frequency of updating appropriate?	___	___
6. Does the overall system for monitoring positions of customers cover:		
a) All significant sources generating customer account entries?	___	___
b) Total transactions over established dollar limits?	___	___
c) Overdraft limits?	___	___
d) Single transfer limits?	___	___
7. Are daily transactions reports generated and reviewed?	___	___
8. Have transaction limit guidelines been established?	___	___
a) If yes, are guidelines reasonable?	___	___
b) Do transaction limits include a \$50 million par value size limit on market book entry Fedwire transfers?	___	___
c) Are guidelines reviewed regularly?	___	___
9. Does the system prohibit any transaction in excess of the established limits until appropriate action is taken?	___	___
10. Is analysis of those accounts intensified for transactions that are over the limit?	___	___
11. Is staff trained in exception procedures?	___	___
12. Are exception reports generated and reviewed by appropriate management?	___	___
13. Do exception reports reflect all activity in excess of transaction limits?	___	___
14. Do internal or external auditors review the funds transfer environment at least annually? (These reviews should conform to the standards established by the Bank Administrative Institute and the Federal Financial Institutions Examinations Council.)	___	___
15. Are auditors independent?	___	___
16. Do audit reports reflect weaknesses in physical controls?	___	___
17. Are audit-exception-clearing procedures adequate?	___	___

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18. Does the institution frequently incur daylight overdrafts and send large transfers to affiliates?		
(a) Are controls in place to ensure that these extensions of credit stay within approved lines?	___	___
b) Have the limits been adhered to?	___	___
c) Have over limit extensions been approved at the appropriate level of management?	___	___
19. Are transfers to affiliates:		
(a) Made pursuant to a written agreement?	___	___
(b) Approved by the board of directors as part of an internal credit policy?	___	___

Step 16: Rate the institution's monitoring positions for its customers according to the guidelines in the following form:

Rating Form for Monitoring Positions for Customers	
_____	Strong: Responses to all of the above are positive and comprehensive customer monitoring is in force for both debits and credits on a real time basis or at least intervals of 15 minutes or less.
_____	Satisfactory: Responses to all of the above are positive and comprehensive customer monitoring is in force for all debit transactions greater than or equal to the monitoring threshold on a real time basis or at intervals of 30 minutes or less.
_____	Unsatisfactory: Any other condition.

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Step 17: Make any necessary adjustments to the rating in Step 16, based on the following:

	Yes	No
1. Provide a brief discussion of the institution's monitoring system, specifically analyzing consistency between monitoring procedures in use and volume and nature of the institution's wire transfer activity.	___	___
2. Is the institution's self-assessment consistent with guidelines?	___	___
3. If the institution's self-assessment rating is not consistent with guidelines, has management developed sufficient data to justify the inconsistency?	___	___

Comment on any adjustments necessary _____

Step 18: Using the information obtained in Steps 9 through 17, especially the ratings in Steps 13 and 16, determine a combined rating from the following table (circle the appropriate row):

If the rating for monitoring positions is:	and the rating for monitoring customers is:	the overall rating should be:	Combined Rating for Operational Controls _____
Strong	Strong	Strong	
Strong	Satisfactory	Satisfactory	
Satisfactory	Strong	Satisfactory	
Satisfactory	Satisfactory	Satisfactory	
Any	Unsatisfactory	Unsatisfactory	
Unsatisfactory	Any	Unsatisfactory	

Comments _____

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III. Credit Policies and Procedures (Steps 19 through 22)

Step 19: Answer the following questions:

	Yes	No
1. Does the institution have a board of directors'-approved credit policy that specifically addresses daylight overdrafts and bilateral net credit limits if the institution is a participant on a private transfer network?	___	___
2. Does the policy address any regular extension of intraday credit to affiliates?	___	___
3. Have customers' aggregate exposures been identified?	___	___
4. Have aggregate customer limits been approved and established?	___	___
5. Do monitoring systems identify usage in excess of approved facilities on a timely basis?	___	___
6. Do reporting systems provide adequate information to support evaluations of credit usage?	___	___
7. Does the institution have exception identification and approval systems that are tailored to the speed, volume, and size of credit approvals required by its payment-system-generated exposures?	___	___
8. Are the institution's review systems geared to identify and take action on deteriorating risk situations?	___	___
9. Are all controls and procedures reviewed and tested by the institution's internal auditors?	___	___
10. Is adequate training available and required for operations, credit, and account officer staff responsible for monitoring the intra day overdraft-exposure system?	___	___

Step 20: Explain compensating controls, if any, where responses are negative.

Step 21: Rate the institution's credit policies and procedures as acceptable or unacceptable, according to the following guide:

Acceptable: All or most responses to the questions in Step 19 are positive.

Unacceptable: All or most of the responses to the questions in Step 19 are negative.

Rating for credit policies and procedures is _____

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Step 22: Combine the three component evaluations from Steps 9, 18, and 21 into a single overall assessment using the following table (circle the appropriate row):

If the rating for credit policies and procedures (Step 21) is:	and the rating for operating controls, policies, and procedures (Step 18) is:	and the rating for creditworthiness (Step 9) is:	then the overall assessment should be:
Acceptable	Strong	Excellent Very Good Adequate Below Standard	High Cap Above-Average Cap Average Cap No Cap
Acceptable	Satisfactory	Excellent Very Good Adequate Below Standard	Above-Average Cap Above-Average Cap Average Cap No Cap
Acceptable	Unsatisfactory	Any	No Cap
Unacceptable	Any	Any	No Cap

Final Overall Rating _____

Step 23:

	Yes	No
1. Is this rating consistent with the rating reported by the institution?	___	___
2. If not, can management justify any inconsistency?	___	___
3. If there is an inconsistency, will management review its self-assessment rating?	___	___
4. If management will not review its self-assessment rating, has the Regional office liaison Officer been notified of the inconsistency?	___	___