Operations Analysis

All phases of the regulatory process, from off-site monitoring between examinations to the final Report of Examination (ROE), involve some form of operational analysis. Operational analysis is the interpretation of financial data through careful and questioning study. An analysis of operations should result in a comprehensive review and evaluation of a savings association's past, current, and prospective earnings. To maintain an association's viability and to minimize risks to the Federal deposit insurance funds, it is essential that you recognize and report problems or potential problems, and that the association takes corrective action. This Handbook Section provides guidelines for reviewing and evaluating the financial operations of an association.

Importance of Earnings

Earnings are essential to a savings association's continued viability. An association's earnings determine its ability to absorb losses, ensure capital adequacy, and generate a reasonable return. You should evaluate an association's operations for stability, trend, level, and quality of earnings. You should also analyze additional factors, such as capital level, credit risk, and interest rate risk, to thoroughly evaluate an association's operations.

LINKS

Program

Appendix A

Appendix B

Appendix C

Importance of Earnings for Mutuals

Mutuals accumulate capital through earnings. When you determine an Earnings rating for a mutual savings association, you must consider the adequacy of the earnings relative to the need for capital. You should not assume that lower earnings are indicative of a poorly run institution. Mutuals generally have lower earnings than a similarly situated stock association. If management of a well-run mutual with few growth opportunities and an extremely high capital base has low earnings, such earnings, if stable and consistent, may be adequate to maintain capital. Accordingly, mutual thrifts with marginal capital levels or a higher-risk business plan may need to retain more earnings to maintain adequate capital because generally mutuals cannot raise more capital except from retained earnings.

Examination Process

The review of a savings association's operations and financial condition is a continuing process. The preexamination analysis and scoping process identify existing or potential problem areas requiring attention. A comprehensive on-site analysis substantiates and assesses current and prospective earnings. A well-performed analysis not only provides an understanding of an association's operations, but also identifies matters of existing or potential concern. You can use the analysis to facilitate corrective action that will avert problems or prevent existing problems from worsening.

When analyzing financial statements, avoid undue precision or spending excessive time on immaterial amounts. Most importantly, you should constantly maintain a sense of the examination objectives. Since earnings reflect a savings association's overall financial condition, you must be aware when examining an association of the extent of existing or potential problem areas outside the purview of operations analysis. As such, you must maintain a constant flow of communication with individuals working on other examination areas to affect a cohesive and comprehensive review.

Finally, such matters as reporting errors, incomplete information, or deficient accounting procedures may hinder or prevent an accurate evaluation of a savings association's operations. A thorough analysis depends on accurate and reliable information and is an extension of reviews of an association's financial records and reports (Handbook Section 410) and accounting standards.

- Information presented in this Section will enable you to accomplish the following procedures: Establish the scope of the financial analysis aspect of the examination. Section 060, Examination Strategy, Scoping, and Management, provides specific guidance on establishing the scope of the examination.
- Identify practices that are potentially unsafe and unsound and formulate a regulatory response.
- Assess an association's operations and strategies.
- Identify problem areas disclosed by the financial records.
- Obtain satisfactory explanations for all material variances of financial data from prior periods and budgeted amounts.

Information Sources

The basic sources of information for performing an analysis of a savings association's operations include all the following items:

- Thrift Financial Reports (TFRs) filed quarterly with the Office of Thrift Supervision (OTS).
- Financial pages of the previous and current ROE.
- National Financial Monitoring Reports including the following:
  - — Uniform Thrift Performance Report (UTPR).
  - — Interest Rate Risk Exposure Report (IRRER).
  - — Thrift Monitoring System (TMS).
  - — Risk Monitoring System (RMS).

- Additional monitoring reports developed at the regional office, if any.
- Independent and internal audit reports.
- Other internal reports to the board of directors, including budget, business plan, earnings reports such as yield and cost analysis, and investment committee reports.
- For publicly traded stock savings associations, 10Q and 10K reports filed quarterly and annually.
- Board minutes.

National Financial Monitoring Reports

OTS staff has access to a variety of reports in its data base systems that serve as the basis for its financial monitoring and analysis of savings associations. These reports are available for individual associations or, in some cases, groups of associations, and provide uniformity in the presentation of financial data for monitoring and analytical purposes. The following is a brief summary of the primary national monitoring reports available to OTS staff:

Uniform Thrift Performance Report (UTPR)

The UTPR is an analytical tool created for monitoring the financial condition of savings associations, both mutual and stock. OTS produces the UTPR every quarter, based on quarterly TFR financial data submitted to it by regulated associations. The report groups associations into seven peer groups based on asset size and peer median data. The UTPR provides an association's percentile ranking within each peer group on virtually all TFR items. The analytical tool that the banking regulators use, the Uniform Bank Performance Report, influenced the format of the UTPR.

The References section at the end of this Handbook Section lists the UTPR sections. This listing provides a comprehensive financial overview of virtually all the major areas of an association's financial condition. This includes an association's relative standing of key financial performance factors measured against peer median levels.

The UTPR presents income information for the current quarter, the prior quarter, the year-to-date, and the two previous years. The UTPR is also available in a format that details the previous five quarters. This provides the opportunity to review the historical condition of one savings association and to analyze the more recent quarterly trends in performance. OTS provides one copy of the report to each regulated association quarterly.

Interest Rate Risk Exposure Report

The IRRER lists OTS's estimates of an association's Net Portfolio Value (NPV) in nine interest rate scenarios. It also provides ratios that you may use to assess an association's interest rate risk and compare it to that of other associations. OTS derives NPV from OTS's Interest Rate Risk Model, using information derived from quarterly filings of Schedule CMR of the TFR. The model uses certain assumptions, and generates the present values for a savings association's asset, liabilities, and off-balance-sheet items. See Examination Handbook Section 410, Financial Records and Reports, and Examination Handbook Section 650, Interest Rate Risk Management, for additional information.

Thrift Monitoring System

The TMS was developed to provide staff at various levels throughout OTS with the capability of readily viewing selected examination and financial information on savings associations, either on an individual or group basis. A primary attribute of TMS is the flexibility the system provides the user in creating customized analytical reports on groups of associations. The source of the financial information for TMS is the UTPR. TMS presently contains three distinct functions: individual association reports, group query reports and fixed reports.

The TMS individual association report function allows the user to access a summary report on a single association. The summary report contains four quarters of financial information relating to capital adequacy, asset quality, valuation allowances, earnings and interest rate risk, as well as selected examination rating information. Besides such summary information, the report contains a second page that presents a condensed four-quarter balance sheet and operating statement, shown both on a dollar volume and percentage of assets basis. The individual association report is a convenient briefing tool for quickly assessing an association's overall financial condition, as well as for identifying developing financial trends.

The TMS group query report function allows the user to select many examination and financial information items for inclusion in customized reports, and to sort selected information using any selected item as a sort criterion. This function is one of the most powerful aspects of TMS, allowing for a virtually limitless combination of options for creating customized reports to analyze examination and financial information on groups of associations.

The TMS fixed report function allows the user to establish customized threshold tests for analyzing nontraditional asset growth and concentrations in various categories among groups of associations. Users can do this analysis to identify associations that exceed growth or concentration threshold levels in the various categories. This function is particularly useful in providing early identification of associations that are rapidly expanding in high-risk areas. This allows supervisory staff to respond in a timely fashion to potentially adverse trends within a particular association or group of associations.

TMS reports are under the Thrift Monitoring (TM) option, under the Thrift Information Management (TIM) option on OTS's Main Menu. A task force composed of regional and Washington Office representatives reviews existing TMS reports to assess the need for possible updates and works to develop new TMS reports as needed. You should be familiar with how the line items on the aforementioned reports correlate with the line items on the TFR. For additional information and instructions refer to the Thrift Financial Report Instruction Manual, OTS's Net Portfolio Model Manual and TMS online help screens, or contact your regional TMS representative.

Risk Monitoring System

The Financial Monitoring Committee developed RMS to provide regional analysts and examiners with a common, standard tool for identifying worrisome trends and deteriorating financial condition of thrifts. Representatives from all regions and DC comprised the committee.

RMS is an Intranet/HTML based monitoring system that uses 51 ratios to screen for exceptions to established limits and parameters. The system assesses a "hit" when an association's ratio exceeds an established limit. There are a maximum of 51 hits with more hits indicating possible supervisory concern. RMS includes features such as the five-quarter report, links to the thrift's home page, links to stock price data and publicly available reports.

You can use RMS to rank or prioritize which thrifts in the region or caseload may need more in depth analyses. In contrast, OTS uses the UTPR for case specific analyses.

There are six major categories of ratios:

- Capital
- Asset quality
- Operations
- Interest rate risk
- Nontraditional assets
- Asset growth

To determine hits, RMS uses the following tools:

- Ratio levels (where a hit is assigned if a ratio exceeds a certain fixed level).
- Ratio changes (where the focus is on quarter or annual change in ratios).
- Percentile rankings (where a hit is assigned if a ratio measures in the worst, either 90th or 10th depending on the ratio, percentile among the peer group).

RMS ratios match UTPR ratios and you can access ratio formulas from the RMS.

OTS bases RMS peer groups on asset size and they are identical to those used in the UTPR with two exceptions:

- The $1-$5 billion asset size group was added to the over $5 billion group.
- All RMS peer groups are national rather than regional.

Off-Site Monitoring

The primary purpose of off-site monitoring is to identify adverse changes in the financial condition and performance of savings associations that may occur between regularly scheduled on-site examinations. OTS has established uniform financial monitoring guidelines to ensure greater consistency in risk assessment and risk detection. These guidelines define the frequency of monitoring, the scope and content of monitoring reviews, and the format for communicating monitoring results.

OTS may use off-site monitoring to accomplish the following other objectives:

- Identify regulatory trends or problems that warrant immediate attention.
- Identify institutions that need to be examined ahead of schedule.
- Identify specific areas within institutions that should be given close scrutiny during on-site examinations.
- Monitor compliance with supervisory directives to correct problems uncovered in prior examinations.
- Monitor adherence to conditions of approval and business plans.
- Monitor compliance with statutory and regulatory limits.
- Modify an institution's examination rating.
- Assemble data, information, and analysis to support on-site examinations.

Each regional office is responsible for monitoring savings associations on a quarterly basis. The regions have discretion in determining the priority of monitoring reviews. Priorities may be based on various factors, such as the severity of deterioration in the financial condition or performance of the institution as evidenced by the RMS-HR (hits report) or any other available information, the number of hits than an institution receives on the RMS-HR, breach of any regulatory limit or Prompt Corrective Action trigger, high-profile status, CAMELS rating, asset size, or the occurrence of a significant event such as a proposed merger or acquisition.

Monitoring of savings associations with high-risk profiles will be more extensive and more frequent than that of nonhigh-risk associations. High-risk associations include those that fail their minimum capital requirements or have a higher overall risk profile based on such factors as asset quality, higher risk asset composition, earnings and operations, liquidity, interest rate risk, or capital. For nonhigh-risk associations, it may be sufficient to limit the review to compliance and summary monitoring reports on a quarterly basis.

For a high-profile association, supervisory staff should incorporate in the association's regulatory profile a summary discussion of the monitoring findings and any resultant corrective action recommended or taken. Supervisory staff should document in the regulatory profile any significant actions, including the identification of material concerns and recommendations for action. This documentation should provide an understanding of an association's operations and performance and should identify matters of existing or potential concern. Supervisory staff should, when appropriate, reference all violations of law, regulation, policy or supervisory directives

For any association, you should notify appropriate regional staff of any problems or risks identified through monitoring. The department must maintain written documentation of the results of off-site monitoring. Regional offices must initiate corrective action when appropriate. Such action may range from a telephone call or letter to the association, a meeting with management, recommendation for an examination, or, in the case of serious problems, formal enforcement action.

COMPONENTS OF EARNINGS

To obtain a complete and accurate understanding of a savings association's operations, it is essential to understand its operating strategy and the components of earnings. OTS identifies the association's strategy in the regulatory profile, or you can identify it by determining revenue and funding sources. Earnings components include such items as interest income and expense, noninterest income and expense, and core income. The paragraphs below describe each of these components in greater detail.

Interest Income

Interest income consists of interest earned on loans, investment securities, deposits, and mortgage pool securities. Interest income is the most important income component of core income for nonmortgage bankers. Mortgage loan servicing fees and other fees and charges are the most important income component of core income for associations that emphasize mortgage banking.

Interest Expense

Interest expense is the interest that the savings association pays on deposits, subordinated debt, collateralized securities, advances from Federal Home Loan Banks, and other borrowed money.

Net Interest Income

Net interest income (NII) represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. NII is a key component of earnings for most savings associations engaged in traditional activities.

Net Interest Margin

Net interest margin (NIM) represents net interest income divided by average assets. NIM is a key performance/profitability ratio. Prudent management of NIM includes the following:

- Planning and implementing sound growth strategies that include effective cash flow analysis.

- Maintaining minimum acceptable levels of noninterest-earning and/or nonperforming assets.
- Maintaining adequate and reasonable capital levels.
- Managing interest rate risk to minimize NIM volatility due to changes in market interest rates.
- Maximizing low cost funding sources.
- Balancing investment yield and risk (credit risk, interest rate risk, liquidity risk, etc.).
- Managing the mix of interest-earning assets and interest-bearing liabilities.

Interest-Earning Assets

Interest-earning assets (IEAs) consist of investment securities, deposits in other institutions, mortgage-backed securities, mortgage loans, and nonmortgage loans less non-IEA components. Non-IEA components include intangible assets (such as goodwill), nonaccrual loans, real estate owned, and real estate held for investment

Interest-Costing Liabilities

Interest-costing liabilities (ICLs) consist of deposits, FHLBank advances, subordinated debentures, mortgage collateralized securities, other borrowings, any non-ICL components deducted from these categories, and the combined total. The level of equity capital influences the level of ICL. High capital levels will lower ICL as a percentage of total assets.

Net Interest Position

A net interest position (NIP) is the same as a net IEA position (IEAs less ICLs). A shrinking NIP indicates a weakening balance sheet, and a greater reliance on products and investment margins for continued profitability. A NIP that is negative may indicate that interest-costing liabilities are financing noninterest-earning assets, which may be a serious weakness.

Net Interest Spread

Net interest spread is the weighted interest yield on average earning assets less the weighted interest rate paid on average interest paying liabilities.

Noninterest Income

Noninterest income includes loan origination fees, loan servicing fees, late fees, hedging gains and service corporation profits. This item may also contain nonrecurring sources of income such as gains on the sale of assets, income from REO operations and other income sources of earnings that are generally unpredictable and unstable.

Noninterest Expense

The major component of noninterest expense is salaries and compensation. This category also includes rent, depreciation, utilities, marketing, assessments, and professional fees. Controlling costs is a critical management function. A reduction in noninterest expenses will increase core earnings, net income and market value.

Provision for Loan Losses

Weak or deteriorating credit quality can result in the need for higher provision expenses, which can adversely affect the association's earnings. See Examination Handbook Section 261, Adequacy of Valuation Allowances, for examination procedures on evaluating the adequacy of the association's valuation allowances.

Core Income

Core income means only spread income and other sources of recurring and reasonably predictable income. OTS defines core income to be net interest margin plus fees earned from loan servicing and other sources, minus general and administrative expenses. While serving as a useful analytical tool, it is important to realize that even core income can be misleading. For example, if spread income stems from an interest rate risk gamble, or if fee income comes from nonrecurring sources, core income will not be sustainable. It is therefore important to know what percentage of core income consists of interest income. In addition, high-risk loan programs may generate consistently high loan losses. You should consider this when evaluating core income as calculated on the UTPR. See Quality of Earnings Section in this Handbook.

COMPREHENSIVE INCOME

Besides net income, Statement of Financial Accounting Standard No. 130, Reporting Comprehensive Income (SFAS No. 130), may require savings associations to report comprehensive income. Comprehensive income measures all changes in equity that result from recognized transactions and other economic events not related to transactions with owners in their capacity as owners. Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes, for example, the following amounts, net of income taxes:

- Unrealized gains and losses on available-for-sale debt and equity securities under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities.
- Gains and losses related to qualifying cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities.
- Minimum pension liability adjustments under SFAS No. 87, Employers' Accounting for Pensions.
- Foreign currency translation adjustments under SFAS No. 52, Foreign Currency Transactions.

SFAS No. 130 does not require a specific format for reporting comprehensive income and its components in the financial statements. However, a savings association should report the total of accumulated other comprehensive income as a separate component of equity capital.

RETURN ON ASSETS AND EQUITY

Return on Assets

Return on assets is net income divided by average assets. Traditionally, return on assets is the primary measure of an association's profitability. You should review the level, trend, and peer comparison of this ratio since it is a critical determinant of long-term viability.

Return on Equity

- Return on equity is net income divided by average equity. Investors and capital markets use the return on equity ratio to determine investment options. Average equity refers to the average of total equity capital: Perpetual preferred stock.
- Common stock.
- Retained earnings.
- Unrealized gains (losses) on available-for-sale securities.
- Other GAAP equity capital defined components.

See Appendix A for the derivation of the return on assets and return on equity ratios.

EVALUATION OF EARNINGS IN DIFFERENT STRUCTURES

Mutual and Stock Associations

The factors relating to stability, trend, and level of earnings apply both to mutual and stock savings associations. Since mutual savings associations do not issue stock certificates, they rarely make capital distributions. Therefore, there is no market pressure on mutual savings associations to increase the value of equity securities. Mutual savings associations, like stock savings associations, must, however, generate sufficient earnings to meet expenses, provide for the payment of interest on deposits, and satisfy regulatory capital requirements.

To avoid shareholder dissatisfaction, stock savings associations have a particular need to meet earnings expectations projected by securities analysts. Further, the earnings of stock savings associations must convince shareholders that the return on equity is satisfactory. Failure to satisfy earnings targets may result in shareholder attempts to replace management or insist on a sale of the savings association to enhance shareholder value.

Comparisons Between Mutual and Stock Associations

Mutual savings associations generally have lower earnings, lower net interest income, lower noninterest income, a lower net interest margin, and a lower return on equity relative to stock associations. Given these operating results, and comparing a mutual to a stock association, you might criticize the institution for poor earnings. Such criticism, however, may not be appropriate considering the institution's capital position and operating strategy.

Subchapter S Corporations

You must modify operations analysis when you review net income and dividends for savings associations electing Subchapter S corporation status. Typically, Subchapter S corporations pay no federal income tax and possibly no state income tax. Unlike most savings associations (Subchapter C type corporations), Subchapter S savings associations generally report net income that is not reduced by any tax provision. Therefore, certain reported amounts for earnings, income taxes, and dividends are not necessarily comparable to that of a Subchapter C savings association, due to the different tax structures of each type of entity.

Special corporate tax rules treat a Subchapter S corporation as a pass-through entity for federal income tax purposes. The S-Corporation's shareholders normally pay federal income taxes on their proportionate share of the corporation's taxable income, whether the S-Corporation pays a dividend or makes other distributions to the shareholders. OTS and the other federal banking agencies consider S-Corporation distributions that cover the shareholders' personal income tax liabilities to be capital distributions.

A review of a Subchapter S savings association should include an analysis of "reinvested earnings." Reinvested earnings is a term used to describe the amount of earnings reinvested in the company (that is, not distributed). By analyzing reinvested earnings, you should be able to assess the Subchapter S savings association's overall financial health and ability to pay dividends. Otherwise, a strictly traditional evaluation may lead to erroneous conclusions regarding a Subchapter S association's financial strength with regard to its capital growth from earnings.

Without consideration of reinvested earnings, the Subchapter S corporation may appear to pay exorbitant dividends, although it is in the same position as a Subchapter C corporation for its capital growth from earnings. For a Subchapter S corporation, dividends will typically include two components:

- Amounts for its shareholders' taxes that related to all pretax income that passed through to the shareholders on their Subchapter S corporation return.

- Amounts representing a return on investment.

These two components may cause the Subchapter S savings association's dividends to appear inordinately large when compared to those of a Subchapter C savings association.

To review the Subchapter S savings association's financial strength, you should consider the unique aspects of a Subchapter S corporation's taxation and the relevance of reinvested earnings. In analyzing earnings, you may simply analyze reinvested earnings. Another approach is to request that the Subchapter S savings association calculate a pro-forma tax provision as if it had corporate level taxes.

Internet Operations

OTS has several Internet-only savings associations and other associations that operate their Internet activities separately from their brick and mortar operations. Other associations have added transactional web sites as a customer retention strategy. The U.S. Department of the Justice estimates that the number of households using Internet banking services will increase from 7 million at the end of 1998 to 21 million by 2003.

Internet-only banking operations have several distinguishing characteristics related to operations that merit your special attention. In general, Internet-only banks have higher general and administrative expenses than more traditionally operated associations. Regulators (and association management) expected lower than normal expense ratios for Internet operations. Thus far, however, the cost of providing transactional Internet services is high. While the cost per transaction may be low when compared to a traditional operation, expenditures for marketing, consultants, temporary personnel, and computer software are significantly higher.

Internet-only associations pay higher rates for its deposits and those deposits tend to run off quickly and dramatically to competitors with higher rates. Liabilities are rate sensitive. Core deposits may not exist. There are few online lending operations. Most Internet-only associations still buy loans in the wholesale market to operate, and often pay a premium, to meet CRA requirements. Internet banks that originate loans tend to outsource the servicing and customer support services to reduce overhead expenses.

Outsourcing

Some Internet banks outsource many core banking and Internet functions to service providers. Service providers perform a variety of functions, including, but not limited to, the following:

- Performing the due diligence on purchased loans.
- Conducting internal audits.
- Providing consulting advice on investment decisions.
- Operating information systems such as the general ledger.
- Providing bill payment services for customers.

- Providing Internet banking software.
- Hosting the association's Internet web site.
- Online direct and referral loan origination support.

Business Plans

The Regional Office approves the association's business plan upon the application for charter. You must determine whether the association is operating within the parameters of the business plan. Associations must submit a revised business plan to the Regional Office if its projections change substantially. For example, the need for additional capital during the de novo period may require numerous business plan revisions.

Core Operations

You should consider the core business when you examine an Internet-only association. It can sometimes be difficult to determine the cause of losses. Losses can occur not only from operations, but also because of software development and marketing costs for their product if the association does not outsource these functions.

Accounting for Software Costs

AICPA Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, provides detailed accounting guidance on the treatment of computer software costs. Its effective date is 1999, unless it was adopted earlier.

According to SOP 98-1, institutions must expense computer software costs if the costs fall under the "preliminary project stage" or the "post-implementation/operation stage." The preliminary project stage includes the following activities:

- Determining the performance requirements of the software.
- Evaluating alternative means of achieving the performance requirements.
- Existence of needed technology.
- Final selection of alternatives to complete the project.

The post-implementation/operation stage includes training and application maintenance activities.

SOP 98-1 allows institutions to capitalize only certain costs incurred during the "application development stage" in connection with activities to obtain computer software. Costs eligible for capitalization include external direct costs of materials and services consumed in developing or obtaining internal-use software (fees paid to third parties), payroll, travel, and related costs for employees directly associated with the project, and interest costs incurred while developing internal-use software.

Although certain exceptions exist, some costs such as maintenance, training, data conversion, or administrative are expensed regardless of when they occur.

Institutions should not make adjustments for remaining internal use software costs either capitalized or expensed prior to the effective date of SOP 98-1.

Profitability

Currently, there are few profitable Internet-only operations. Generally, they have razor thin margins, volatile deposits, too much capital, and sometimes, excessive growth. Gaining market share is key to most business plans and, hoping to ensure their long-term survival, they pursue market share at the expense of profitability. In theory, once Internet operations get past break-even, profits should begin rising quickly with additional business.

EARNINGS ANALYSIS

To make a thorough analysis of earnings you should begin with a review of an association's earnings strategies and its strategic business plans. You should evaluate earnings performance relative to measures appropriate for the dominant type of business the association engages in such as traditional thrift activities, mortgage lending, securitizations, subprime lending, or other activity. Your earnings analysis should not only provide an assessment of why earnings are weak or strong, stable or variable, but also give reasons for the earnings performance relative to the association's business strategy and economic environment. For example, if earnings are poor because of lower gain on sale from mortgage banking activities, do not attribute poor earnings to high general and administrative expenses. Most successful mortgage banking operations generally require higher general and administrative expenses.

Four Key Aspects of Earnings

You should perform an aggregate evaluation of the components of earnings in relation to four key aspects of earnings: stability, trend, level, and quality. We further discuss these four aspects below.

Stability of Earnings

The stability of earnings relates to the quality, composition, and constancy of income and expense flows relative to internal factors such as credit risks, interest rate risks, or accounting practices, and external factors such as general economic or competitive forces.

A savings association's income stability depends on proper management of its sources of income and expense and the influence of internal and external factors on those sources. Recurring income sources, such as net interest on loans or investment portfolios, are usually preferable to nonrecurring income sources, such as income derived from the sale of assets. Relying too heavily on nonrecurring sources of income could severely affect an association's future viability. See Quality of Earnings Section in this Handbook.

Trend of Earnings

Trend is the general direction of the savings association's earnings relative to previous time periods. Evaluating previous time periods should encourage you to identify and investigate both an association's adverse and positive earnings trends.

Level of Earnings

The level of earnings is the measure of earnings relative to internal factors such as capital position, credit risk, and interest rate risk.

You should perform a comparison to peer groups to determine material variances. In doing so, you may use the standard peer groups based solely on asset size or the more refined peer groups based on charter type (mutual to stock), operational and geographical characteristics, as well as asset size.

You must review additional areas to ensure a comprehensive analysis, since many risks may materially affect earnings. You should therefore review the findings relating to risk analysis that the Asset Quality and Sensitivity to Market Risk Sections of this handbook discuss.

Quality of Earnings

Your examination of a savings association's earnings should include a review of the quality of earnings. The quality of reported earnings, also referred to as accounting quality, may be defined as how well a company's financial statements accurately depict business activities.

Management is responsible for reporting earnings that are consistent with economic substance. GAAP allows management the flexibility and latitude to effectively communicate the financial position and results of a company's operations. Accordingly, management may implement certain reporting strategies, make certain accrual, deferral, or allocation decisions, or exercise other managerial discretion when reporting earnings.

Management should not manipulate earnings or misuse accruals or underlying assumptions of a transaction such that it misreports income, and thus capital, and causes users of the financial statements to change or alter judgments or decisions about the condition of the company.

Accordingly, it is not only important to look at the components of earnings, but also at the techniques and strategies management may be using to report earnings. The strategies management uses should fall within acceptable limits of GAAP, and not mask the economic condition of the company.

When evaluating the quality of an association's earnings, you should also identify key areas of operating performance that affect profitability. For example, if a key area of operation is in securitization transactions, an association may show impressive profitability by reporting nonrecurring gains and revenues such as gains on sales of securitizations or other asset transfers. It is also possible for thrifts to report impressive profitability ratios and high volumes of income by assuming unacceptable levels of risk. For example, to boost earnings in the short-term, management may seek higher rates on riskier loans and other investments to offset the increased credit risk associated with those assets. However, over the long-term, these assets may not be of a quality to assure either continued debt servicing or principal repayment. Eventually, earnings or capital may suffer when management must recognize the losses in these higher-risk assets.

Aside from any recourse implications that may arise, properly reflecting the quality of earnings is less likely a problem in a generic sale of whole loans than in a securitization or other type of asset sale. For more information on whole loan sales, see Handbook Section 575, Secondary Markets.

Associations may also have various sources of recurring and nonrecurring fee income including late fees from deposit loan accounts and nonrefundable rate lock fees. You should review fees that you consider significant to the statement of operations. There is a discussion of fee income from servicing loans in Examination Handbook Section 572, Profitability.

You should consult your Regional Accountant with questions concerning earnings management issues.

Securitization Transactions

Properly reflecting earnings from securitization transactions or those from mortgage servicing assets may be more difficult because relatively minor changes in the economic environment can significantly affect reporting. In addition to economic influences, financial reporting of securitizations is based on complex accounting standards in SFAS No. 140, Accounting for Transfers and Securitizations of Financial Assets and Extinguishments of Liabilities.

Under SFAS No. 140, an association initially measures and records assets retained in connection with a sale or securitization, based on the relative fair values. That is, the association allocates the previous carrying amount between the sold assets and the retained interests based on their relative fair values. The reported gain is the difference between the net proceeds from the sale and the allocated carrying value of the assets sold. This methodology is often called "gain-on-sale" accounting. While much of the focus on gain-on-sale accounting has been on subprime securitizations, prime securitizations may also take advantage of gain-on-sale accounting.

Because of the subjectivity underlying most assumptions used to determine fair values, management can allocate higher carrying amounts to retained interests. The higher the carrying amount allocated to retained interests, the lower the carrying amount allocated to the sold assets. The lower carrying amount of the assets to be sold results in a higher recorded gain on the assets sold. Thus, reported gains may not be truly reflective of the association's operating performance, or they may be noncash, temporary, or of a nature that the association may never realize them in the future. See CEO Letter No. 156. "Certain Transfers of 'Higher-Risk' Assets," (February 7, 2002).

The following management actions may affect the assigned fair value of the assets, and thus affect the quality of reported earnings:

- Management uses optimistic assumptions to calculate asset values. Since allocating a higher carrying amount to retained interests may result in a larger up front gain on the assets sold, management may use optimistic assumptions that over estimate the value of retained interests. The following factors affect estimates underlying valuations and the ability to measure cash flows reliably:

  — Prepayment rates.

  — Credit loss rates.

  — Discount rates (required rate of return).

  — Lack of a reliable market.

- Management assumes a credit loss rate that is too low or inconsistent with existing market conditions. As a result, credit losses may be high if management fails to timely reassess assumptions. Even if the assumed credit loss rate is consistent with existing market conditions, unanticipated losses may still occur if there is an economic downturn. For example, until the year 2001, growth of the subprime sector occurred during a period of economic prosperity and stability. In the event of a recession or a dramatic economic downturn, losses may increase significantly.

- Management assumes a prepayment speed that is too slow for assets such as mortgage servicing assets or other retained interests. For example, a fall in longer-term interest rates will cause an acceleration of payments. If prepayments are faster than expected, then future cash flows may disappear and the value of the servicing asset or retained interest will decline. Even subprime mortgages, once believed largely insulated from prepayment risk, have become more prepayment sensitive as alternatives for subprime borrowers increase.

Goodwill

Institutions may find it challenging to keep abreast of new accounting standards that affect reported earnings, as well as to appropriately and timely implement complex standards into their financial reporting systems. For example, SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets, changed how institutions (other than mutuals) account for acquired goodwill and other intangible assets. Institutions no longer amortize goodwill, but must measure the goodwill, if any, for impairment, and make adjustments accordingly. This treatment may create volatility in reported income because impairment losses are likely to occur irregularly and in varying amounts. You should review an association's goodwill, if any, and determine how the association measures and adjusts its goodwill for impairment. You should ensure that the association no longer amortizes goodwill.

Negatively Amortizing Loans

A significant concentration of loans that are negatively amortizing may affect the quality of earnings. A negatively amortizing loan is one in which the contractual amount due (principal and accrued interest) continues to increase over time because the periodic interest charges exceed the minimum periodic payments required. For single-family loans, the stated purpose of such terms is to reduce the borrower's payments, generally for a temporary period of time, usually two to three years.

For example, if an association makes a $100,000 loan at a 7% interest rate for 30 years, then the fully amortizing monthly payment would be $665. If any one of the 360 payments (30 years X 12 months) is less than that fully amortizing amount, then the loan will not be paid-off at the end of the 30 years. The association will recognize interest income based on the 7% interest rate. However if, based on the borrower's ability to pay, the monthly payment is initially set to $500, then the loan will be negatively amortizing. The $500 monthly payment equates to an interest-only payment of 6% [$500 / $100,000 X 12]. The loan will negatively-amortize at approximately 1% per year (7% less 6%). After three years, the contractual amount due will have grown to $103,328, including accrued interest of $3,328 (approximately $100,000 X 1% X 3 years). Then, if the loan is converted to fully amortizing, the monthly payments will be $694 for the remaining 27 years, compared to the original fully amortizing amount of $665.

Depending on the borrower's circumstances and the loan's characteristics, as well as economic conditions, once the association converts the loan to a fully amortized loan, the borrower may be unable to make the higher payments or to pay any additional balance due on the loan at payoff. Thus, the association has reported these amounts as income, but may not be able to recover the full amount.

Regulatory Concerns

In summary, incentives to report higher earnings, the nature of assumptions used in certain transactions, like securitizations, and improper reporting in general may affect reported earnings. Examiners should be alert to the regulatory concerns cited throughout this section, and to the following additional regulatory concerns as well:

- Management may use gains to further leverage the balance sheet. You should consider the quality of capital supporting asset growth to the extent that management based gains on optimistic assumptions or that the value of the retained interest is highly sensitive to accelerating prepayments or declining asset quality.

- Management compensation or dividend payouts may be excessive, and dependent on earnings. Associations often tie compensation and dividends to reported profits. To the extent that reported profits are overstated, these payouts can dissipate assets and capital.

- Management may ignore credit quality. The incentive for profits can override attention to quality of earnings. The potentially significant profit that management can generate by gain-on-sale accounting creates a strong incentive to produce originations, often with little attention to credit quality.

- Later impairment assessments may erase reported gains. Management may have to reverse, in later periods, some or all of the up front gains recorded in a securitization or other transfer of assets because of impairment assessments. For income purposes, management should reflect certain adversely classified and nonperforming assets, especially those where the association does not anticipate future interest payments, on a nonaccrual basis. If management does not place these assets on a nonaccrual status, they may overstate earnings.

- Improper treatment of losses may overstate capital. Management should not create allowances for losses on retained interests. Management should record losses by adjusting the recorded investment in the retained interests. Management should not record such losses in the ALLL. See FASB Emerging Issues Task Force (EITF) Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets.

ANALYTICAL TECHNIQUES

Operations analysis involves a review of financial data on a period-to-period basis to substantiate the reasonableness of financial performance without requiring a systematic review of transactions. (This does not preclude a review of transactions, if appropriate.) Through understanding the components of operations analysis you will be able to apply various analytical techniques to assess an association's financial condition. You may use association and peer group ratios to identify discrepancies.

You must be aware of the following weaknesses inherent in the approaches employed in the operations analysis:

- More than one component of the financial data being analyzed cause apparent variances.

- Operations analysis is historical — the financial data that you analyze describes the association at a prior point in time.

- Operations analysis may not answer all questions, but it may raise additional ones.

For example, a common ratio used to evaluate the efficiency of an association's operations is the level of operating expenses expressed as a percentage of operating income. Using this ratio, you may conclude that operating expenses are higher than the peer group and that they have been increasing during the periods under review. The real concern, however, is not that a variance exists, but why it exists.

Interrelationships

Operations analysis requires an awareness of the interrelationships of the data used. For example, an increase in the operating expense to operating income ratio may be due to an increase in actual operating expenses. Also, a decline in revenues that was the result of shrinking assets without a corresponding decline in the fixed operating expenses of the company may cause the variance.

Examination procedures that investigate operating expenses would not explain why the variance occurred if the ratio increased due to a decline in revenues. By understanding the interrelationships of the data, you will be able to focus your analysis to answer the questions raised by the variance.

Basic Approaches

All financial analytical techniques are combinations or adaptations of four basic approaches used to evaluate a savings association's operations. We discuss the fundamental considerations of each of the following four approaches below:

- Structural
- Trend
- Ratio
- Comparative.

Structural Analysis

Structural analysis is a static analysis, where you view the components of a financial statement in relation to the whole financial statement as of a specific date. This technique can provide insight regarding the relative size of a particular line item in comparison to the other components of the financial statement. You can also use structural analysis to determine whether a particular line item is increasing or decreasing in relation to the other components. For example, total assets on a statement of condition and gross revenues on a statement of operations are base figures representing 100 percent. The financial statement presents each line item as a percentage of these base figures. An example of a structural analysis of a statement of condition follows:

Statement of Condition

12/31/XX

Assets			
Cash	$	12,500	0.66%
Marketable Securities		210,000	11.16%
Mortgage Loans		1,275,000	67.75%
Fixed Assets		325,000	17.27%
Prepaid Expenses		50,000	2.66%
Other Assets		9,500	0.50%
Total Assets	$	1,882,000	100.00%
Liabilities			
Accounts Payable		25,500	1.35%
Notes Payable		500,000	26.57%
Deposits		1,100,000	58.45%
Other Liabilities		74,500	3.96%
Total Liabilities		1,700,000	90.33%
Stockholders' Equity			
Capital Stock		100,000	5.31%
Retained Earnings		82,000	4.36%
Total Stockholders' Equity		182,000	9.67%
Total Liabilities and Stockholders' Equity		1,882,000	100.00%

As shown, the statement of condition presents each line item as a percentage of total assets.

Trend Analysis

Trend analysis is the technique of comparing ratios or a financial statement line items over several periods of time. You should make the comparison by using both the dollar variance and the percentage variance methods. The dollar variance method involves calculating the dollar difference in the line item between the various periods. The percentage change in the line item for the periods is the basis for the percentage variance method.

It is important to use both methods. The percentage variance may not readily disclose large dollar changes in line items if the base is also large. The dollar variance method may not disclose large percentage changes in line items. For example, a line item variance could be under 5 percent but still require investigation if the amount of the change is $5 million. Conversely, a $20,000 change in a line item may not seem to be material. If it represents a 35 percent change from a prior period, however, it may also warrant investigation.

Components of Trend Analysis

We discuss below the three primary components to performing a good trend analysis.

Number of Accounting Periods: The use of three or more accounting periods provides an understanding of what will likely be normal changes in the data. By comparing variances in the data over several accounting periods, patterns of change emerge that you can use to identify any unusual changes in current periods. Another benefit is that you can identify a change that may warrant investigation.

The accounting periods reviewed may include annual, quarterly, or monthly data depending on the purpose of the review. Quarterly or annual data in some instances can mask a month-to- month cash flow problem that an association is experiencing. You must use association records to review monthly figures, as OTS no longer requires associations to file monthly reports.

Sound Judgment: It is necessary to use sound judgment in assessing the materiality of a variance. You must use professional skepticism when evaluating the change, but must also remember that business is dynamic and change is inevitable. You should pursue only those variances that are not reasonable or are of sufficient magnitude to justify additional examination procedures. You must evaluate such variances in relation to the overall financial position of the association. A number of factors may account for variances including cyclical and seasonal factors, changes in accounting practices, and changes in operating strategies. You should identify and explain positive or adverse trends, so that your findings support the overall evaluation.

Volume-to-Rate Variance Analysis: Volume- to-rate variance analysis identifies how much of a change in an income statement line item is due to a change in volume and how much is due to a change in rate. This analysis is especially beneficial in evaluating changes in revenues and expenses associated with interest-bearing assets and interest-costing liabilities. Further, this technique allows you to identify offsetting variances that may otherwise go undetected. For example, although significant changes are occurring, a substantial decline in rate that results in little change in the financial statement line item may offset a large increase in volume. Through this analysis, you can narrow the scope of the examination to focus on the cause of the change in the data. Table 1 illustrates the technique and its benefits.

You can use numerous ratios in a trend analysis. Typical balance sheet ratios include real estate owned to total assets, equity capital to total liabilities, delinquent mortgage loans to net mortgage loans, and subordinate organization investment to total assets. (See Appendix B for a discussion of the latter.) Typical operating ratios include gross income to average assets, operating expense to average assets, net income to average assets, and net interest margin to average earning assets or average costing liabilities.

Table 1

Volume-to-Rate Variance Analysis

	19X1	19X2	Variances
Yield from Mortgage Loans	$400,000	$450,000	$50,000
Average Yield	10.0%	9.0%	
Average Amount of Mortgage Loans Outstanding	$4,000,000	$5,000,000	

Volume Variance	= variance in base times the first year rate
	= ($5,000,000-4,000,000) x 10%
	= $1,000,000 x.10
	= $100,000
Rate Variance	= variance in rate times second year base
	= (9.0%-10.0% x $5,000,000)
	= -1.0% x $5,000,000
	= .01 x $5,000,000
	= -$50,000
Volume	= $100,000
Rate Variance	= -50,000
Net Change in Yield	= $50,000

Ratio Analysis

Ratio analysis is the method of comparing a figure or group of figures in a set of financial statements to another figure or group of figures within the same financial statements. The assumption that there are meaningful relationships between different asset, liability, net worth, income, and expense accounts is the basis for ratio analysis.

Financial analysts have developed numerous standardized ratios for analyzing financial statements. Although it is beyond the scope of this Handbook to provide a listing of all the ratios that you may use to analyze financial statements, the more commonly used ratios include:

- Current assets divided by current liabilities.
- Net income divided by average assets.

- Operating expenses divided by average assets.

You can find these ratios in nearly all intermediate accounting or financial analysis texts. In addition, there are several ratios specific to analysis of financial institutions.

Most traditional lending institutions strive to maintain a relatively stable spread between asset yields and liability costs. Net interest income is a function of interest-earning asset (IEA) yields, interest-costing liability (ICL) costs, and the IEA/ ICL relationship.

When IEA/ICL exceeds 100 percent, the excess of earning assets bolsters net interest income and somewhat mitigates the effect of interest rate volatility on earnings. As the IEA/ICL ratio falls below 100 percent, net interest income obviously becomes impaired and becomes less likely to cover operating expenses.

In general, the net interest margin (NIM) will be greater than the spread if IEA exceeds ICL and less than the spread if ICL exceeds IEA. The difference between the yield on earning assets and the cost of funds provides the net interest spread.

You should compare ratios with historical (trend analysis) and peer group standards (comparative analysis) to identify unusual items.

Comparative or Peer Group Analysis

Comparative analysis is the method of comparing the components of a financial statement with those of a savings association of a similar size or other similar characteristics. You may also use ratio analysis to compare ratios from one firm with that of industry standards or peer group ratios. You should not rely upon peer group information in isolation, but in conjunction with other pertinent evaluation factors. Peer group or other comparative industry data should not be the sole, or even primary, basis for component ratings.

Whenever possible, compare mutuals associations with other mutuals, not stock associations. Beginning February 2001, fourth quarter UTPR data is available for mutuals only. With mutual-only peer ratios, you are better able to review the various financial ratios in an attempt to spot problem trends and outliers.

When it is not possible to compare a mutual with other mutuals, (such as the case with larger mutuals who have very few peers the same asset size), you should not focus exclusively on net income or other performance ratios without taking into account the institution's capital position and overall strategy.

When comparing mutuals and stocks, it is more appropriate to compare a mutual association's net income with a stock association's net income after dividends. Net income after dividends is the bottom line for both types of institutions.

	Stock	Mutual
Net Income	1,000	800
Dividends	-200	0
Reinvested Earnings	800	800

<u>The Uniform Thrift Performance Report</u>

The UTPR provides a savings association's own ratio, the median value of that ratio for an association's peer group, and the percentile ranking of an association's ratio value within the peer group. This enables measurement of the relative performance of an association to a peer group of associations, as well as measurement of the relative performance of the association and its peer group over time.

The UTPR constructs seven peer groups for comparative purposes. Asset size is the basis for the first six groups. The seventh group contains associations whose consolidated equity capital is less than zero or are in conservatorship.

Group 1	Assets less than $50 million.
Group 2	Assets between $50 million and $100 million.
Group 3	Assets between $100 million and $300 million.
Group 4	Assets between $300 million and $1 billion.
Group 5	Assets between $1 billion and $5 billion.
Group 6	Assets over $5 billion.

Except for Group 6, the UTPR includes the peer groups on a regional geographic basis. The UTPR calculates Group 6 (consisting of the largest associations) on a national basis to allow for a larger sample size than would be available in any one region.

Comparative analysis typically uses ratios such as net income to average assets, operating expense to average assets, or cost of funds to average costing liabilities.

FUTURE OPERATING RESULTS

After you review the stability of operating results and identify historic trends of the primary revenues, you can estimate and evaluate an association's probable future operating results.

A key tool in making this evaluation is the budget prepared by management. You should obtain a copy of the budget including projected revenues, expenses, and underlying assumptions. An evaluation of the budget should include all the following comparisons:

- Projections with prior period results.
- Projections with actual results for the same period.
- Projected return on assets and return on equity with prior period results.
- Projected yields for major earning assets with prior period yields.
- Projected operating expenses as a percentage of assets and revenues with prior period data.
- Projected goals and assumptions with trends in market conditions.

Although comparing the operating budget with prior period data is necessary, the key to evaluating the budget is to understand the validity of the underlying assumptions and the probability of projected goals. Prior data does not provide meaningful information if the entire focus of the association is changing. For example, if a portfolio lender begins mortgage-banking operations, the crucial evaluation of the budget would not come from comparison with prior period data. Instead, the focus would be on the reasonableness of projected loan originations and sales compared with current market conditions.

Controlling business risks is one of the primary responsibilities of management. An association's balance sheet and operating statement reflect the types of risk assumed by the association and how well management controls those risks. By analyzing the balance sheet and operating results, and identifying trends in the financial data, you can make a determination whether management's policies benefit or adversely affect an association.

Profitability Assessment

An association may assess its own profitability in many ways and at different levels. A thrift may evaluate its profitability as a whole or the particular profitability of branches, products, or types of customers. In whatever way an association assesses its profitability, accurate information is the basis for good decisions.

An association's information requirements depend largely on its size and complexity of its operations. While you should encourage management to develop improved systems and information, associations must be reasonable in their expectations.

Consolidated Financial Statements

Consolidated financial statements summarize the financial position and results of operations for two or more affiliated companies. Associations prepare and present such statements without regard to the separate legal status of either company. The purpose of consolidated financial statements is to present a parent company and its subsidiaries as if they were a single company. Such statements do not include gain or loss on transactions among the companies in the group. Further, consolidation is usually necessary for a fair presentation when one of the companies in the group directly or indirectly has a controlling financial interest in the other companies.

Savings associations should prepare consolidated financial statements for all GAAP-consolidated subsidiaries in which an association has a controlling financial interest through direct or indirect ownership of a majority voting interest. As a general rule, direct or indirect ownership by one company of over 50 percent of the outstanding voting shares of another company is a condition that suggests consolidation.

In order for the parent and its subsidiaries to be presented as one entity, the institution must consolidate their separate trial balances into one trial balance and eliminate intercompany balances and transactions. The institution must make eliminating entries on consolidating worksheets, but neither the parent nor the subsidiaries are to record them in their general ledgers.

You should review the consolidating entries of intercompany accounts. Typical consolidations include the following eliminating entries:

- Intercompany payables against intercompany receivables.
- Intercompany profit and losses on sales of assets that the parent or subsidiary have not subsequently resold to third parties.
- Investment accounts of first-tier subordinate organizations against the capital accounts of lower-tier subsidiaries.
- Intercompany revenues against intercompany expenses.

See Appendix C, Reconciliation of Intercompany Accounts.

Materiality

OTS defines materiality as an assessment of relative size and importance. You can analyze the materiality of intercompany transactions by:

- Identifying intercompany transactions that frequently occur. Such transactions include:
  - — The parent's investment in capital of the subordinate organization.
  - — Long-term loans from the parent to the subordinate organization.
  - — Short-term accounts receivable (or payable) between the parent and the subordinate organization pertaining to normal operations.
- Assessing activity in intercompany accounts. This involves reviewing general ledger account histories of selected accounts for following items:

— Numerous transactions.

— Correcting entries (original entries posted to the wrong accounts).

— Large dollar amount entries lacking a clear explanation of their purpose.

- Identifying source documents for review if you deem further analysis of specific transactions necessary. Such documents include:

— Cash receipts records (cash receipts journals and bank deposit slips).

— Cash disbursement records (cash disbursement journals and checks issued).

— Journal vouchers for noncash transactions.

REFERENCES

Code of Federal Regulations (12 CFR)

Part 562	Regulatory Reporting Standards

Office of Thrift Supervision Publications

Thrift Financial Report Instruction Manual

Thrift Time Series User's Guide

OTS Net Portfolio Value Model Manual

UTPR Reports:

Section A	Summary Statement
Section B	Detailed Income Statement
Section C	Analysis of Net Interest Income
Section D	Detailed Balance Sheet
Section E	Asset Quality
Section F	Allowances
Section G	Capital Accounts and Requirements

Section H	Changes in Financial Condition
Section I	Lending, Investment, Foreclosure and Restructuring Activity
Section J	Questions, Strategies, New Deposit Yields
Section K	Composition of CMR Portfolio
Section L	Interest Rate Risk Information
Section M	Examiner Support Software Ratios

Financial Accounting Standards Board

Statement of Financial Accounting Standards

No. 52	Foreign Currency Transactions
No. 87	Employers' Accounting for Pensions
No. 115	Accounting for Certain Investments in Debt and Equity Securities
No. 130	Reporting Comprehensive Income
No. 133	Accounting for Derivative Instruments and Hedging Activities
No. 140	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
No. 141	Business Combinations
No. 142	Goodwill and Other Intangible Assets
No. 144	Accounting for Long-Lived Assets
No. 146	Accounting for Costs Associations With Exit or Disposal Activities

American Institute of Certified Public Accountants (AICPA)

Statement of Position (SOP)

No. 98-1	Accounting for Costs of Computer Software Developed or Obtained for Internal Use