

# RESCINDED EC - 233



## EXAMINING ISSUANCE

---

Comptroller of the Currency  
Administrator of National Banks

---

Type: Examining Circular

Subject: Supervision Program for Chain Banks

EC 233 has been replaced by Comptroller's Handbook - Related Organizations.

TO: Deputy Comptrollers; District Administrators; Department Heads; Division Directors;  
and Examining Personnel

### PURPOSE

This circular establishes the supervisory policy for national banks in chain banking organizations. The policy provides for a monitoring system and establishes a strategic framework for coordinating examinations of chain banks. Implementation of this policy is intended to enhance OCC's ability to supervise chain banks by systematically identifying such relationships and coordinating examinations of those chain banks that possess characteristics warranting a higher degree of supervisory concern. This will facilitate detection and control of the conditions that could expose those institutions to undesirable systemic risks that may occur throughout the chain group.

### BACKGROUND

Generally, the term "chain banking" describes the form of banking structure in which two or more independently chartered banks are controlled either directly or indirectly by the same individual, family, or group of individuals closely associated in their business dealings. A registered multibank holding company and its subsidiary banks are not ordinarily considered a chain banking organization unless the holding company is linked to other banking organizations through common control.

While chain banking can be an effective and efficient form of banking structure, providing many of the benefits common to multibank holding company systems, it also provides the potential for unsafe and unsound banking practices to impact more than one institution in the chain group.

The linkage of several banks or holding companies into a chain creates a concentration of banking resources vulnerable to mutual risk. Mutually shared risks that occasionally can arise in chain banking relationships may result from poor loan participation practices; common deficiencies in lending, investment or other policies; domineering or absentee ownership; insider lending abuses or other self-serving practices. Detection and correction of these problems is often complicated when the chain is composed of institutions subject to multiple supervisory jurisdiction.

# EXAMINING ISSUANCE

Comptroller of the Currency  
Administrator of National Banks

Type: Examining Circular

Subject: Supervision Program for Chain Banks

## POLICY

OCC will supervise national banks that are part of a chain banking organization in a manner that fully considers the consolidated chain's impact on the safety and soundness of the subject national bank(s). This supervisory strategy is intended to ensure that OCC resources are efficiently and effectively deployed.

Therefore, supervision will be coordinated to address the risk posed by the entire chain. OCC will initiate contacts with and cooperate with other federal or state financial institution supervisory authorities to ensure an effective evaluation of the condition and prospects of the chain group and its member institutions.

## PROCEDURES

Management Information System of Records:

Deputy Comptrollers (District) are responsible for implementing and maintaining a system of records designated as the "Chain Banking Organizations System." The System will consist of word processing or microprocessing programs which detail two types of data:

- Ⓐ Name of an individual (or group of individuals acting in concert) that owns or controls two or more banks or financial institutions (including at least one national bank); and
- Ⓑ Information concerning individual chain banks, such as: name and location, charter number, charter type, date of last examination, percentage of outstanding stock owned by controlling individual or group and, if applicable, name of intermediate holding entity and percentage of it held by controlling individual or group.

For purposes of this issuance, a presumption of effective control should be made if the common owner has the ability, directly or indirectly, to control the vote of 25% or more of any class of voting securities or to direct the management or policies of the bank. However, the record should also identify any known or suspected chain relationship regardless of the percentage of voting control.

# EXAMINING ISSUANCE

Comptroller of the Currency  
Administrator of National Banks

Type: Examining Circular

Subject: Supervision Program for Chain Banks

The system of records should adhere to the data format set forth in Attachment A. The system should also comply with the policies and practices for storage, retrieval, access, retention and disposal set forth in Attachment B.

In addition, since the system is subject to the provisions of the Privacy Act of 1974, procedures should be implemented by District Council to process any Privacy Act access requests made regarding records in the system, as set forth in Attachment B.

#### Scheduling Coordinated Examinations:

District Administrators are responsible for setting the overall supervisory strategies for each chain organization. As part of the overall supervisory strategy, non-on-site examinations should be coordinated with other regulatory agencies. District Administrators or their designees are responsible for initiating interagency planning sessions and making the final decision regarding which chain banks will be examined in coordination with other supervisory authorities. Decisions regarding supervisory strategies and action plans for chain organizations should be documented in the files of the affected banks.

Periodic examination planning sessions held with the Federal Deposit Insurance Corporation regional offices and Federal Reserve System district banks pursuant to the provisions of PPM 5400-2, should incorporate consideration of concurrent or coordinated examinations of chain banking groups. As appropriate, other affected regulatory authorities such as the Federal Home Loan Bank Board or State officials should be invited to participate.

District Administrators or their designees are responsible for seeing that chains which operate on an inter-District basis are coordinated with their counterparts. For those chains operating on an intra-District basis, District Administrators or their designees should see that strategies and examinations are coordinated with each affected Field Office.

In devising an appropriate supervisory action plan including deciding whether to conduct concurrent or coordinated examinations the following factors should be considered:

- Ⓒ The degree and nature of control or influence being exerted over individual banks in the chain. The managerial style and extent of direct control or influence at each institution in the chain.

# EXAMINING ISSUANCE

Comptroller of the Currency  
Administrator of National Banks

Type: Examining Circular

Subject: Supervision Program for Chain Banks

- Ⓒ The relative complexity and sophistication of the chain's organizational structure including the degree of centralization of operations.
- Ⓒ The degree of interdependence among the individual institutions in the group with specific emphasis on the volume and frequency of interbank transactions such as: loan participations or sales; insider and related interests loans or transactions; BHC or bank stock loans; correspondent or interbank transfers; contractual obligations for services or other matters; purchases or sale of securities or other assets.
- Ⓒ The relative strengths and weaknesses of the individual institutions in the group including comparative size, overall condition and historical performance. The existence or suspicion of instability or weaknesses should be given particular weight.

## Supervisory Follow-up and Monitoring:

District Administrators or their designees should ensure that the condition of chain organizations are monitored on an ongoing basis. This would include periodic on-site, as well as off-site monitoring of information, including collection of information directly from the chain and from other regulators.

Procedures should be established to assure the timely exchange of significant information between the participating examining personnel and other supervisory authorities. For guidance refer to the "Joint Statement of Policy on Interagency Exchange of Supervisory Information" dated August 23, 1984.

Periodically, but at least annually, the examiner-in-charge of the principal national bank in the group or other staff designated by the District Administrator should review the results of off-site and on-site analysis, including the examination of each entity in the group, and render a summary analysis of the consolidated chain group.

The reviewer should prepare a written summary analysis of the consolidated chain group's condition and include a brief description of the scope of its operations, earnings and capital adequacy. Adverse comments common to several institutions in the group should be discussed in detail. See Attachment C for guidelines in preparing the written analysis. A copy of the completed review should be retained in each affected bank's file. If the chain contains one or more nondelegated banks, a copy of the written analysis should be forwarded to the appropriate division in Washington.



# EXAMINING ISSUANCE

---

Comptroller of the Currency  
Administrator of National Banks

---

Type: Examining Circular

Subject: Supervision Program for Chain Banks

---

The summary analysis may serve as a basis for updating individual supervisory strategies and for deciding the frequency of future coordinated examinations by the District. In any event, the analysis of the chain should be updated at least annually. The District Administrator or designee should also determine the need for more frequent updates of the analysis depending on the overall condition of the chain.

## ORIGINATING OFFICE

Chief National Bank Examiner's Office, Commercial Examinations Division, (202) 447-1165.

Michael Patriarca  
Deputy Comptroller of the Currency

## **Related Links**

- [Data Format](#)
- [Proposed System of Records](#)
- [Summary Analysis](#)

CHAIN BANKING ORGANIZATIONS

MW District

Report Prepared as of mm/dd/yy

STATE (Alpha Order)

Controlling Individual or Group (Alpha Order)

Charter\* Bank Name, City, State  
(N, NM, SM, SL) Charter #, Last Exam mm/dd/yy  
ownership: \_\_\_\_\_% (of intermediate holder,  
if any) which owns \_\_\_\_\_%(of bank's stk.)

KANSAS

John Able Family

- (N) First NB of Anytown, Anytown, Kansas  
# 04882, Last Exam 11/30/83  
Ownership: 65.14% of ABC Agency, Inc.,  
which owns 95.54%
- (N) Capital NB, Bucolic, Kansas  
# 05276, Last Exam 03/15/83  
Ownership: 100%
- (NM) Security State Bank, Melville, Kansas  
# 00065, Last Exam 06/30/83  
Ownership: 98.55%
- (SM) Cash County State Bank, Milton, Missouri  
00453, Last Exam 08/30/83  
ownership: 99.10% of XYZ Bankshares, Inc.,  
which owns 100%

C. H. Brown Group

- (N) First National Bank, Allburg, Kansas  
# 19487, Last Exam 03/25/83  
ownership: 91.10%
- (NM) First State Bank, Axtown, Kansas  
# 45034, Last Exam 07/30/83  
ownership: 40.55%

MISSOURI

John Able Family

(Refer to Kansas listing)

\*(N) = National, (NM) = Non Member, (SM) = State Member, (SL) =  
Savings and Loan

## ATTACHMENT B

Office of the Comptroller of the Currency

[Docket No. 85-5]

Privacy Act of 1974; Proposed New System of Record

AGENCY: Office of the Comptroller of the Currency, Treasury.

ACTION: Notice of Proposed New System of Records Concerning the Chain Banking Organization System.

SUMMARY: Pursuant to the requirements of the Privacy Act of 1974, the Office of the Comptroller of the Currency ("Office") gives notice of the establishment of a new system of records entitled The Chain Banking Organizations System ("System").

DATE: Comments must be received no later than 30 days after publication of this notice. If no comments are received, the system of records will become effective June 24, 1985.

ADDRESS: Comments should be sent to Docket No. 85-5, Communications division, Office of the Comptroller of the Currency, Washington, D.C. 20219, Attn: Lynne Carter, (202) 447-1800.

FOR FURTHER INFORMATION CONTACT: Larry Senter, National Bank Examiner, Commercial Examinations, (202) 447-1164 or Larry Mallinger, Senior Attorney, Legal Advisory Services Division, (202) 447-1880, Office of the Comptroller of the Currency, 490: L'Enfant Plaza East, SW., Washington, D.C. 20219.

### SUPPLEMENTARY INFORMATION:

#### Purpose of System

The Office is establishing the System to enhance its supervision of chain banks. The system will contain information useful in identifying chain banking relationships. This will facilitate internal and interagency coordination of bank examinations and related supervisory responsibilities. Moreover, the system will provide a base of assessing the consolidated condition of various chain banking groups. The System is subject to the provisions of the Privacy Act of 1974 (5 U.S.C. 552a).

#### Description of the System

The System will consist of word processing and microprocessing programs which

perform editing, updating and reporting functions of two types of data: (1) Name of an individual (or group of individuals acting in concert) that owns or controls two or more banks or financial institutions (including at least one national bank); and (2) information concerning individual chain banks, such as; name and location, charter number, charter type, date of last examination, percentage of outstanding stock owned by controlling individual or group and, if applicable, name of intermediate holding entity and percentage of it held by controlling individual or group.

TREASURY/CC00.015

**SYSTEM NAME:**

Chain Banking Organizations System (Treasury CC/00.015).

**SYSTEM LOCATION:**

Office of the Comptroller of the Currency, 490 L'Enfant Plaza East, SW., Washington D.C. 20219.

1211 Avenue of the Americas, Suite 4250, New York, NY 10036.

Peachtree Cain Tower, Suite 2700, 229 Peachtree St., Atlanta, GA 30303.

Sears Tower, Suite 5750, 233 South Wacker Dr., Chicago, IL 60606.

2345 Grand Avenue, Suite 700, Kansas City, MO 64108.

1201 Elm St., Suite 3800, Dallas, TX 75270

50 Fremont Street, Suite 3900, San Francisco, CA 94105.

**CATEGORIES OF INDIVIDUALS COVERED BY THE SYSTEM:**

Individuals who directly, indirectly, or in concert with others, own and/or control a chain banking organization.

**CATEGORIES OF RECORDS IN THE SYSTEM:**

The Chain Banking Organizations System consists of word processing and microprocessing programs which perform editing, updating and reporting functions on two types of data: (1) Name of an individual (or group of individuals acting in concert) that owns or controls a chain banking organization and (2) information concerning individual chain banks, such as; name, location, charter number, charter type, date of last

examination, percentage of outstanding stock owned by controlling individual or group and, if applicable, name of intermediate holding entity and percentage of it held by controlling individual or group.

**AUTHORITY FOR MAINTENANCE OF THE SYSTEM:**

12 U.S.C. 1, 12 U.S.C. 481, 12 U.S.C. 1817(j).

**ROUTINE USES OF RECORDS MAINTAINED IN THE SYSTEM, INCLUDING CATEGORIES OF USERS AND THE PURPOSES OF SUCH USES:**

The System may be used:

(1) To disclose information about specific chain banking organizations to other financial institution supervisory authorities for: (a) Coordination of examining resources then the chain banking organization is composed of banks or financial institutions subject to multiple supervisory jurisdiction; (b) coordination and evaluations and analysis of the condition of the consolidated chain group; (c) coordination of supervisory, corrective of enforcement actions;

(2) To disclose information to the extent provided by law or regulation and as necessary to report any apparent violations of law to appropriate law enforcement agencies.

(3) To disclose pertinent information to appropriate Federal, State, or local agencies responsible for investigating or prosecuting the violation of, or for enforcing or implementing, a statute, rule, regulation, order, or license, where the disclosing agency becomes aware of an indication of a violation or potential violation of civil or criminal law.

(4) To disclose information to a Federal, State, or local agency, maintaining civil, criminal or other relevant enforcement information or other pertinent information, which has requested information relevant to or necessary to the requesting agency's or the bureau's hiring or retention of an employee, or issuance of a security clearance, license, contract, grant, or other benefit.

(5) To disclose information to a court, magistrate, or administrative tribunal in the course of presenting evidence, including disclosures to opposing counsel or witnesses in the course of civil discovery, litigation, or settlement negotiations or in connection with criminal law proceedings.

(6) To provide information to a Congressional office in response to an inquiry made at the request of the individual to whom the record pertains.

**POLICIES AND PRACTICES FOR STORING, RETRIEVING, ACCESSING, RETAINING AND DISPOSING OF RECORDS IN THE SYSTEM:**

**STORAGE:**

These records are maintained in a computer data base and on computer floppy disks or hard copy printouts stored in file cabinets.

**RETRIEVABILITY:**

All retrievable records are indexed by district location, state, alphabetically by surname of the individual(s) and/or entity controlling the chain banking organization.

**SAFEGUARDS:**

Access to records in electronic storage systems is restricted by user identification procedures and passwords which limit access to authorized employees of the Office. Computer disks and hard copy printouts will be stored in locked file cabinets when the Office is vacant.

**RETENTION AND DISPOSAL:**

Records are generally maintained in electronic storage disks in an on-line capacity until needed. Certain records are achieved in off-line storage. All records, including those in printout form, are periodically updated to reflect changes and maintained as long as needed.

**SYSTEM MANAGER(S) AND ADDRESSES:**

Senior Deputy Comptroller for Bank Supervision, Office of the Comptroller of the Currency, 490 L'Enfant Plaza East, S.W., Washington, D.C. 20219. District Offices--The Deputy Comptroller for each District is responsible for assuring the accuracy and routine maintenance of the portion of the System applicable to the district.

**NOTIFICATION PROCEDURE:**

Individuals who wish to be notified if they are named in the system shall submit a signed, written request to the appropriate District Office (or to the System Manager at the address listed). The request must contain: (1) The requestor's name and address; (2) the name of the system of records; and (2) the name and location of the bank(s) which they control individually or in concert with others.

In order to avoid excessive delay and unneeded correspondence, individuals requesting notification should simultaneously request access to records pertaining to them.

#### RECORD ACCESS PROCEDURES:

Portions of this system of records may be accessed under the Privacy Act for purposes of inspection by identified controlling individuals for the express purpose of verifying that their controlling relationships are accurately recorded.

#### CONTESTING RECORD PROCEDURE:

Individuals who wish to contest a record in the system must submit a signed written request to the Senior Deputy Controller for Bank Supervision, Office of the Comptroller of the Currency, 490 L'Enfant Plaza East S.W., Washington, D.C. 20219.

The requests should contain: (1) The name and address of the individual contesting the record; (2) the name of the system of records, (3) the name and location of the chain bank(s) which they reportedly control individually or in concert with others; and (4) the specific information being contested and the reason for contesting (it is believed to be inaccurate, irrelevant, incomplete, etc.).

#### RECORD SOURCE CATEGORIES:

Information that identifies chain banking groups primarily is gathered from: (1) Examination reports and related materials; (2) regulatory filings; and (3) Change in Bank Control Notices filed pursuant to 12 U.S.C. 1817(j).

#### SYSTEMS EXEMPTED FROM CERTAIN PROVISION OF THE ACT:

None.

Dated April 12, 1985.

D. Edward Wilson, Jr.,

Deputy Assistant Secretary for Departmental Management.

## ATTACHMENT C

### CHAIN GROUP SUMMARY ANALYSIS

#### PURPOSE

The primary purpose of this analysis is to provide meaningful information about the chain banking group to the OCC that is not detailed or summarized in the commercial examination reports of the group's banks. The analysis should emphasize the adequacy and effectiveness of the chain group's plans, policies and internal monitoring mechanisms. The analysis will give the overall financial condition of the consolidated group. Examiners are urged to be creative, analytical and forward looking in the presentation of the consolidated examination results. The areas that should be addressed are described below.

#### SCOPE OF EXAMINATION

- ④ Consolidated chain group and individual entities or subsidiaries - Summarize the overall scope of the examination of the significant member entities, non-significant and nonbank entities. Summarize the scope and the degree of coordination between the OCC and the regulatory agencies in conducting the coordinated examination.

#### OVERALL CONCLUSIONS

- ④ Financial condition - Summarize the condition of the consolidated chain group.
- ④ Significant problems - Identify areas of concern which are significant and affect several or all of the chain system's organizations. Indicate management's commitments for corrective action. Problems which concern only one or a few banks or entities should be discussed in the reports of examination for the affected banks.

#### MANAGEMENT AND SUPERVISION

- ④ Evaluate any controlling ownership influence over the chain group.
- ④ Evaluate the style of controlling management and supervision of the system.
- ④ Evaluate the competence, effectiveness and continuity of management personnel.
- ④ Evaluate the reporting systems and internal monitoring mechanisms.

## LIQUIDITY AND FUNDS MANAGEMENT

- ④ Analysis of policies, procedures and objectives.
- ④ Evaluate liability composition.
- ④ Evaluate the group's capacity to acquire funds including contingency plans, e.g., downstream/upstream correspondents, commercial paper, etc.
- ④ Evaluate rate sensitivity of assets and liabilities.

### ASSETS (if centralized)

- ④ Analysis of policies, procedures and objectives.
- ④ Evaluate loan portfolio management.
- ④ Evaluate the internal loan review system.
- ④ Evaluate investment portfolio management.

## EARNINGS AND CAPITAL

- ④ Analysis of policies, procedures and objectives.
- ④ Summarize past earnings.
- ④ Evaluate current earnings.
- ④ Evaluate ability to maintain capital adequacy.
- ④ Evaluate management/service fees.
- ④ Evaluate debt service capabilities.
- ④ Evaluate budget process.

### AUDIT PROGRAM (if centralized)

- ④ Evaluate the adequacy, scope and frequency of the audit program.
- ④ Evaluate the independence of the auditor.
- ④ Laws and Regulations - Comment on the extent to which the audit function checks for compliance with laws and regulations.
- ④ Comment on the extent of audit of internal management reports.

## FUTURE PLANS AND STRATEGIES

- ④ Image - Summarize the image and posture the control group wants to project to the public and industry and describe any expected changes.
- ④ Plans and objectives - Summarize goals and objectives for capital planning, loan and investment decisions, marketing, auditing, etc. State the plans for the future as expressed by management and controlling owner, operating plans, capital plans and other projections. Evaluate ability to meet future projections.
- ④ Strategy formulation - Describe the techniques used to develop strategies and evaluate achievement in attaining goals.
- ④ Acquisition plans - Describe plans to acquire banks or other affiliated entities.

## LITIGATION (Optional)

- ④ Lawsuits - List any significant lawsuits in which the controlling parties or organizations are defendants.

## INTERCOMPANY TRANSACTIONS

- ④ Significant transactions - Discuss any significant transactions, such as, loan participations or sales; insider and related interest loans or transactions; BHC or bank stock loans, correspondent or interbank transfers; contractual obligations; purchases or sales of securities or other assets.

## CHAIN BANKS AND RATINGS

- ④ List the individual chain banks in the group, total assets and CAMEL/ composite ratings from the most recent examination.