

DATE

**BHC OFFICIAL
ADDRESS**

Dear **BHC OFFICIAL**:

This year, the Federal Reserve Bank of **CITY** will conduct off-site inspections of certain bank holding companies. Your company will be inspected during **19XX** and presently qualifies for an off-site review by our office.

As part of our off-site program, you will receive an information request form which must be completed and returned to the Reserve Bank. The Reserve Bank will reimburse you for postage expenses. The form requires responses to several questions, as well as submission of copies of certain holding company financial documents. Our examiners will review the information, complete their analysis, and discuss their findings with management, either by telephone conference or, if necessary, at the offices of your bank holding company.

Following the off-site review, holding company management will receive a written report which will include the following:

- a description of the scope of the inspection;
- the examiner's presentation of the financial condition and performance of the parent company and the subsidiary bank;
- an evaluation of the company's compliance with laws and regulations; and
- the examiner's comments, conclusions, and recommendations.

We have found that the off-site inspection program has proved attractive to many banking organizations. However, participation is not mandatory. Therefore, if you do not wish to participate, please sign and mail the enclosed form by **DATE**. We do want to make it clear, however, that while we plan to conduct an off-site review of your company if you accept this proposal, we still may conduct an on-site inspection if conditions change or if examiners are otherwise in your vicinity.

BHC OFFICIAL

DATE

Should you have any questions concerning the off-site inspection program, please contact **OFFICE STAFF MEMBER** at **(800) XXX-XXXX, extension XXXX.**

Sincerely,

**OFFICER
TITLE**

Enclosure

OFF-SITE INSPECTION PROGRAM
FEDERAL RESERVE BANK OF XXXXXXXX
RESPONSE FORM

We do not wish to participate in the off-site inspection program
in **19XX**.

Name of Company: _____

City: _____

State: _____

Signed: _____

Title: _____

DATE

**BHC OFFICIAL
ADDRESS**

Dear **BHC OFFICIAL**:

Pursuant to our telephone conversation of **DATE**, an off-site inspection of **BHC**, will be conducted by our office. Please respond to each item of the information request form attached and complete the enclosed schedules. Please be aware that all items submitted for review will be retained by our office and not returned to the company. Therefore, it is advisable to submit copies of records rather than originals. Upon receipt of the items requested, we will reimburse your bank holding company for the postage expense.

In order for us to use the off-site program, you must submit a complete response to this information request no later than **DATE**. If we are unable to satisfactorily resolve any issues arising from your response to this request, or if the information contained in your response is substantially incomplete, we will schedule the company for an on-site inspection.

Upon review of the information submitted, we will contact you to schedule a meeting with our examiners. If you have any questions concerning the inspection process or the preparation of your responses, please contact **OFFICE STAFF MEMBER** at **(800) XXX-XXXX, extension XXXX**.

Sincerely,

**NAME
EXAMINER**

Enclosures

BHC
OFF-SITE INSPECTION CONDUCTED AS OF
DATE

INFORMATION REQUEST FORM

Please submit or provide responses to the following (if nonapplicable, answer N/A):

1. Statements for the most recent quarter and the two latest fiscal years:
 - A. Parent Company - Balance Sheet.
 - B. Parent Company - Income Statement.
 - C. Parent Company - Statement of Changes in Stockholders' Equity.
 - D. Bank - Reports of Condition and Income (most recent quarter only).
 - E. Reconciliation of the parent company's "Investment in Bank" account to the subsidiary bank's "Stockholders' Equity" as reported in the Reports of Condition.
2. The bank's daily statement and income and expense statement dated **DATE**.
3. Projected cash flow worksheet for the year **19XX** (see attached form).
4. Excerpts from the company's general ledger and subsidiary ledgers containing all significant accounting entries since **DATE**.
5. Detail of any "other assets" or "other liabilities" accounts for the company, as well as "other income" or "other expense" items, presented in financial statements requested above IF the amounts exceed \$500.
6. Details on any liabilities, contingent or otherwise, not appearing in the financial statements.
7. A copy of the company's bank statements and its check register and/or cancelled checks issued since **DATE**.
8. A copy of any notes payable and/or receivable of the bank holding company (including a copy of any related loan agreements) if they have been put in place or amended since the last inspection.³

³ The last inspection of **BHC NAME** was conducted on **DATE**.

9. A copy of any agreements originating since the last inspection between the company and the bank, between stockholders, or between the bank holding company and the stockholders.
10. A list of changes since the last inspection in specific services performed by the holding company for the bank or for any other company. Also indicate the method for computing fees, provide copies of any relevant agreements, and provide documentation supporting any management/service fee assessments.
11. For any changes to the parent company's investments in stocks of companies OTHER THAN subsidiaries, a list of the: 1) date of acquisition/sale; 2) number of shares acquired/sold; 3) resulting percentage ownership; and 4) nature of business engaged in by the subject company.
12. A copy of any internally prepared reports of problem loans and nonperforming assets for the banking organization.
13. A list of any stock issuances or redemptions by the company since the last inspection, including the issue/redemption date and price. Also, list all stockholders and their percentage interest in the holding company as of **DATE**.
14. A statement of the date and amount of any capital injections into the bank since the last inspection.
15. A copy of the minutes of all shareholders'/directors' meetings for the company held since the last inspection.
16. For each director of the holding company, provide his or her: 1) date of birth; 2) date first elected to the board; 3) position in the bank holding company; 4) position in the bank; 5) principal occupation if different than bank or bank holding company officer; 6) ownership percentage in other financial institutions; and 7) positions in other financial institutions.
17. A statement of any material litigation affecting the company or the bank.
18. A list of all tax transactions since **DATE**. These transactions would include those between the bank and the holding company as well as any transactions with the tax authorities. (See attached example.)
19. A copy of the last two years federal and state income tax returns, including any amendments.
20. A copy of your accountant's work papers showing the calculation of the holding company tax benefit or liability for the last two years.

21. If the parent company filed for a tax loss carryback in the last two years, provide documents filed with the IRS and related prior year tax returns.
22. A copy of the tax sharing agreement between the bank holding company and its bank subsidiary if ammended or redated since the last inspection.
23. The date of the last audit by the IRS of the bank holding company's tax returns, an identification of the tax periods covered in the audit, and an indication of whether any assessments or refunds remain unsettled.
24. A copy of the bank's current year budget and operating projections, if available.
25. If the subsidiary bank maintains a correspondent balance at any creditor bank of the holding company, copies of: 1) the monthly analysis of the account provided by the correspondent for the last twelve months; 2) any agreement whereby the loan to the holding company is contingent on the subsidiary bank maintaining such a balance; and 3) an explanation if the balances maintained by the subsidiary bank exceed the level required for services received.
26. If any Employee Stock Ownership Plan ("ESOP") owns stock in the holding company, provide copies of: 1) the ESOP plan and trustee agreement; 2) the ESOP's current balance sheet; 3) the independent appraisal used to determine the value of the holding company stock purchased by the ESOP; 4) any note payable, security agreement, loan agreement, and guarantees. Also provide: 1) the date the plan was accepted by the IRS; 2) a description of the ESOP's current investments, including the date they were purchased and their cost; 3) the name of the individual(s) who has the power to vote the ESOP stock; 4) a list of individuals having the power to make investments for the ESOP; and 5) a list of the beneficiaries of the ESOP.
27. Copies of the Articles of Incorporation and Bylaws for the bank holding company, if amended since the last inspection.
28. If the holding company is selling insurance: 1) list the licensed agents employed by the company; 2) compensation received by each agent; 3) method for determining compensation; 4) a description of how customers of the bank are informed that they are not obligated to purchase insurance from the holding company in order to obtain credit; and 5) a breakdown of insurance accounts receivable past due more than 90 days.
29. If the subsidiary bank is providing the holding company either personnel or facilities for the sale of insurance or any noninsured investment products, a statement indicating

whether the subsidiary bank is reimbursed for its expenses. If the bank is reimbursed, a description of the method used to determine such amounts. Indicate when this reimbursement method was approved by the respective boards of directors.

30. If the holding company is involved in the sale of any noninsured investment products such as annuities or mutual funds, describe the program including any arrangements that involve the use of third party brokers. If the holding company receives any share of the related commissions or lease income or if employees of the holding company or a nonbank subsidiary of the holding company are involved in the program, please describe.
31. Copies of the dividend policies of the holding company and the subsidiary bank. If no written policy exists, provide a description of the methods used to determine the amount of dividends paid by the bank holding company or any of its subsidiaries.
32. The dates and amounts of dividends paid by the subsidiary bank since the last quarter-end.
33. A description of any changes made to the holding company's audit and/or credit review programs.
34. Details of any Directors and Officers liability insurance maintained by the organization or indemnification provisions adopted by the bank or bank holding company.
35. For banker's blanket bond and excess fidelity bond coverage, please provide: 1) name of surety; 2) form number; 3) primary and excess amount of coverage; 4) expiration date; 5) name of insured; 6) an indication of whether all officers and employees of the holding company, bank and any nonbank subsidiaries are covered; 7) the date the insurance coverage was last approved by the bank holding company's board of directors and the bank's board of directors; and 8) a description of how insurance premiums are allocated among the entities of the organization.
36. Details of any significant transactions since **DATE** not already described in responses to the above questions.

PROJECTED CASH FLOW

For the year ending **DATE**

(in thousands)

BEGINNING CASH BALANCE, DATE	\$
<u>INCOME</u>	
Dividends from subsidiaries	\$
Interest from subsidiaries	
Management and service fees	
Other operating cash income	
TOTAL CASH INCOME	\$
<u>EXPENSES</u>	
Interest	\$
Lease and rental	
Salary and employee benefits	
Other operating cash expenses	
TOTAL CASH EXPENSES	\$
<u>TAXES</u>	
Cash payments expected from Bank	\$
Tax refunds expected from tax authorities	
Expected tax refund paid to Bank	()
Expected payments to tax authorities	()
NET CASH RECEIVED/(PAID)	\$

PROJECTED CASH FLOW

For year ending **DATE** (CONTINUED)

(in thousands)

EXTERNAL SOURCES OF CASH

Issuance of stock	\$
Increase in borrowed funds	
Sale of assets	
Other external sources	
TOTAL EXTERNAL SOURCES	\$

EXTERNAL USES OF CASH

Decrease in borrowed funds	\$
Dividend payments: Preferred stock	
Common stock	
Capital contribution: Bank	
Nonbank	
Purchase of assets	
Other external uses	
TOTAL EXTERNAL USES	\$
NET CHANGE IN CASH BALANCE	\$
PROJECTED CASH BALANCE, ENDING DATE	\$

**EXAMPLES OF
TAX TRANSACTIONS**

<u>DATE</u>	<u>AMOUNT</u>	<u>FOR TAX YEAR</u>	<u>FED/STATE</u>	<u>FROM</u>	<u>TO</u>	<u>REASON</u>
03-31-X6	\$10,000	19X6	Federal	Bank	Holding Co.	1st quarter estimated tax payments
05-20-X6	\$ 4,354	19X5	Federal	IRS	Holding Co.	Refund tax overpayment
05-22-X6	\$ 5,000	19X4	Federal	IRS	Holding Co.	Tax loss carryback refund
05-22-X6	\$ 5,000	19X4	Federal	Holding Co.	Bank	Tax loss carryback refund
06-30-X6	\$10,000	19X6	Federal	Bank	Holding Co.	2nd quarter estimated tax payments
01-31-X7	\$20,000	19X6	Federal	Holding Co.	Bank	Overpayment of 1986 taxes
03-30-X7	\$ 5,000	19X7	Federal	Bank	IRS	1st quarter estimated tax liability for consolidated return