ATTACHMENT #2

FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE PR-8-90 (1-19-90)

FDIC ISSUES POLICY STATEMENT PROVIDING GUIDANCE ON EXTERNAL AUDITING PROCEDURES

The Board of Directors of the Federal Deposit Insurance Corporation has adopted a new policy statement recommending minimum procedures for annual external auditing programs of FDIC-supervised banks. The FDIC is taking the step because it considers objective, outside views of a bank's operations to be an important part of the agency's programs that encourage safe and sound business practices.

The new guidance is in addition to an FDIC policy statement that became effective December 28, 1988, which strongly urges banks to have an annual audit by an "independent public accountant" but also identifies alternatives that may be acceptable. The new policy statement adopted by the FDIC Board on January 16 provides guidance on specific auditing procedures, especially for banks that forgo an annual audit of their financial statements by an independent public accountant.

In issuing the new policy statement, FDIC Chairman L. William Seidman said: "The FDIC strongly recommends that each bank we supervise have an annual audit performed by an independent public accountant in accordance with generally accepted auditing standards. However, a bank may choose, for specific reasons, to use some other form of independent external auditing program. Our new policy statement is intended to encourage certain procedures that we believe are key to a solid auditing program, especially for addressing high risk areas of the bank."

(more)

Chairman Seidman also noted that FDIC examiners review the adequacy of a bank's internal and external auditing programs. The FDIC supervises approximately 8,000 state-chartered banks across the nation.

The policy statement provides guidance on specific auditing procedures to address the following areas common to all banks that may prove to be high-risk: loans; the allowance for loan losses; securities investments; transactions involving bank officers, directors and other "insiders"; and internal controls.

The new policy statement will become effective when it is published in the Federal Register. It states that each bank should review the risks inherent in its particular business to determine if additional procedures are needed to cover other high-risk activities. Subsidiaries of audited bank holding companies are not expected to have separate external auditing procedures performed but may need additional review if a subsidiary's activities involve "unusual risks" not addressed by the consolidated audit.

The FDIC policy statement also suggests the minimum information, including minimum sample sizes, that independent auditors should include in their report. The guidance also reiterates a request that each bank furnish its FDIC Regional Office with a copy of reports received from the external auditors.

The text of the policy statement on minimum auditing procedures is attached.

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Attachment

Distribution: FDIC-Supervised Banks

STATEMENT OF POLICY PROVIDING GUIDANCE ON
EXTERNAL AUDITING PROCEDURES
FOR STATE NONMEMBER BANKS

In its Statement of Policy Regarding Independent External Auditing Programs of State Nonmember Banks that became effective December 28, 1988, the FDIC strongly encourages each state nonmember bank to have an annual audit[1] of its financial statements performed in accordance with generally accepted auditing standards by an independent public accountant. Nevertheless, the board of directors of each state nonmember bank is ultimately responsible for safeguarding the bank's assets and ensuring the integrity of its financial statements. The audit committee or board of directors of the bank may determine not to engage an independent public accountant to perform an audit for various reasons. In those instances, the FDIC recommends that each state nonmember bank have an independent external auditor[2] (who need not be an independent public accountant) annually perform the auditing procedures[3] set forth below as part of its external auditing program.

Although the purpose of this policy statement is to encourage certain basic external auditing procedures as a less costly alternative for banks choosing not to have a financial statement audit, the auditing procedures recommended in this guidance are basic to any sound external auditing program. For that reason, they should also be among the procedures performed by an independent public accountant in an audit in which an opinion is expressed on a bank's financial statements. Thus, if a bank chooses to have an audit of its financial statements performed by an independent public accountant, such an opinion audit will generally satisfy the objectives of this statement of policy.

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[1]Reference is made to Appendix A to the Statement of Policy Regarding Independent External Auditing Programs of State Nonmember Banks for the definitions of terms used in this statement of policy.

[2]Ibid.

[3]When a bank engages an independent public accountant to perform less than a full financial statement audit, the engagement letter describing the procedures for which the bank has contracted generally refers to the work as "agreed-upon procedures." The term "auditing procedures" used throughout this statement of policy in meant to encompass these "agreed-upon procedures."

The auditing procedures contained in this statement of policy are intended to address high risk areas common to all banks. However, they do not address all possible risks in a banking organization and each bank must review the risks inherent in its particular business to determine if additional procedures are needed to cover other high risk areas in which it has activities. For example, if a bank or its subsidiaries has significant real estate investments, securities broker-dealer or similar activities (including those described in section 337.4 of the FDIC rules and regulations), or trust department operations, among others, the FDIC urges the bank to consider expanding the scope of its external auditing program so that it includes auditing procedures in these other high risk areas. (Information on external auditing procedures applicable to other banking activities is available from banking industry trade associations and auditing organizations.)

The independent auditor (or the public accountant) should be informed of and permitted access to all examination reports, administrative orders, and any additional written communication between the bank and the FDIC or state banking authorities.[4] The auditor should obtain bank management's written representation that he has been informed of and granted access to all such documents prior to the completion of his field work.

A review of both a bank's internal and external auditing programs will continue to be part of the FDIC's examination procedures, but examiners will not automatically comment negatively upon a bank that does not have an audit or all of these auditing procedures performed annually by an independent auditor. The examiner will review the risks in each bank's business and operations, and will comment negatively if internal auditing is deficient and/or sufficient external auditing procedures are not performed as often as necessary to assure the safe and sound operation of the bank under examination.

<u>Extent of Testing</u>

Where the procedures set forth below require testing or determinations to be made, sampling may be used. Both judgmental and statistical sampling may be acceptable methods of selecting samples to test. Judgmental sampling may be particularly suitable for small banks, and sample sizes should be selected

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[4]In this regard, section 931 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 provides that "Each insured depository institution which has engaged the services of an independent auditor to audit such depository institution within the past 2 years shall transmit to such auditor . . . a copy of the most recent report of examination received by such depository institution." In addition, each depository institution is required by section 931 to provide such auditor with a copy of any supervisory memorandum of understanding with the depository institution, any written agreement between any federal or state banking agency and the institution, and any report of any action initiated or taken by a federal banking agency under Section 8 of the Federal Deposit Insurance Act (or similar state action) or any civil money penalty assessed against the depository institution or any institution-affiliated party.

consistent with generally accepted auditing standards (for the certified public accountant) or as agreed upon by the auditor and bank client. In any event, the sampling method and extent of testing (including the minimum sample size(s) used) should be disclosed in the auditor's report.

As with any auditing program under generally accepted auditing standards or otherwise, if an auditing procedure that is set forth below deals with an area or account of the bank in which the amounts and/or risks are not material to the bank's operations and financial results based on the experience and judgment of the auditor, the procedure may be omitted from that year's auditing program. Nevertheless, the auditor would have to review each such area or account each year in order to determine whether to reaffirm his/her conclusion.

Reports to be Filed with the FDIC

The FDIC's Statement of Policy Regarding Independent External Auditing Programs of State Nonmember Banks requests that each bank that undergoes any external auditing work, regardless of the scope of the work, furnish a copy of the reports pertaining to the external auditing program, including any management letters, to the appropriate FDIC regional office as soon as possible after their receipt by the bank. In addition, that policy statement requests each bank to promptly notify the appropriate FDIC regional office when any independent public accountant or other external auditor is initially engaged to perform external auditing procedures and when a change in its accountant or auditor occurs.

External Auditing Procedures Required by State Banking Regulators

Some state statutes or state banking authorities require certain auditing procedures (often called "Directors' Examinations") to be performed each year with a report submitted to the state authority. Assuming the state requirements on scope and reporting correspond to or exceed those recommended in this statement of policy and the auditing procedures are performed by an independent external auditor, the bank may satisfy this statement of policy when its state-mandated external auditing program is performed. A copy of the auditor's report prepared for the state may be submitted in lieu of a separate report to the FDIC.

Holding Company Subsidiaries

When the audit committee or board of directors of any state nonmember bank owned by another company (such as a bank holding company) considers its external auditing program, it may find it appropriate to express the scope of its program in terms of the bank's relationship to the consolidated group. If the state nonmember bank is directly or indirectly included in the audit of the consolidated financial statements of its parent company performed by an independent public accounting firm, this statement of policy is not intended to imply that the bank is expected to have separate external auditing procedures performed. Nevertheless, if the board of directors of the subsidiary bank determines that the bank has activities that involve unusual risks to the subsidiary and these activities were not addressed by the audit of the consolidated entity (because these risks may be immaterial to the consolidated entity), appropriate additional external auditing procedures may need to be considered for the subsidiary bank.

As provided in the FDIC's Statement of Policy Regarding Independent External Auditing Programs of State Nonmember Banks, where a bank is directly or indirectly included in the audit of a consolidated entity's financial statements, the bank may send one copy of the comparable reports by the public accountant or the notification of a change in accountants for the consolidated company to the appropriate regional director. If several banks supervised by the same FDIC regional office are owned by one parent company, a single copy of each report applicable to the consolidated company may be submitted to the regional office on behalf of all of the affiliated banks.

Basic External Auditing Procedures:

LOANS

1. Inquire as to whether the bank has policies that address the lending and collection functions. Review the bank's loan policies to ascertain whether they address the following items:

   a. General fields of lending in which the bank will engage and the types of loans within each field;
   b. Descriptions of the bank's normal trade area and circumstances under which the bank may extend credit to borrowers outside of such area;
   c. Limitations on the maximum volume of each type of loan product in relation to total assets;
   d. Responsibility of the board of directors in reviewing, ratifying or approving loans;
   e. Lending authority of the loan or executive committee (if such a committee exists) and individual loan officers or classes of officers;
   f. Adherence to legal lending limits;
   g. Types of loans, specifying whether secured and unsecured, which will be granted;
   h. Circumstances under which extensions or renewals of loans are permitted;
   i. Guidelines for rates of interest and terms of repayment for loans;
   j. Documentation required by the bank for each type of loan;
   k. Limitations on the amount advanced in relation to the value of various types of collateral;
   l. Limitations on the extension of credit through overdrafts;
   m. Level or amount of loans granted in specific industries or specific geographic locations;
   n. Guidelines for participations purchased and/or sold;
   o. Guidelines for documentation of new loans prior to approval, updating loan files throughout the life of the loan, and maintenance of complete and current credit files on each borrower;

p. Guidelines for loan review procedures by bank personnel including:
   i. An identification or grouping of loans that warrant the special attention of management;
   ii. For each loan identified, a statement or indication of the reason(s) why the particular loan merits special attention; and
   iii. A mechanism for reporting periodically to the board on the status of each loan identified and the action(s) taken by management.

q. Collection procedures, including, but not limited to, actions to be taken against borrowers who fail to make timely payments;

r. Guidelines for nonaccrual loans (i.e., when an asset should be placed in nonaccrual status, individuals responsible for identifying nonperforming assets and placing them in nonaccrual status, and circumstances under which an asset will be placed back on accrual);

s. Guidelines for loan charge-offs;

t. Guidelines for in-substance foreclosures.

2. Read the board of directors' minutes to determine that the loan policies have been reviewed and approved. Through review of the board of directors' minutes and through inquiry of executive officers, determine whether the board of directors revises the policies and procedures periodically as needed.

3. Obtain the minutes of the board of directors and/or loan committee, as appropriate, and, through a comparison of a sample of loans made throughout the period with lending policies, test whether loans funded during the previous year were properly authorized by the appropriate committee or loan officer(s) within the bank's lending limits.

4. Select a sample of borrowers (including loans from each major secured and unsecured loan category) and determine through examination of loan files and other bank reports whether lending and collection policies are being followed (e.g., type of loan and any extension or renewal of a previous loan are in accordance with loan policy, funds were not advanced until after loan approval was received from proper loan authorization level, and insurance coverage is adequate with the bank named as loss payee).

5. Using the sample of borrowers selected from each major category of secured loans, determine through examination of files and other bank reports whether collateral policies are being followed (e.g., loan is adequately collateralized, documentation is present and properly prepared, and assignments are perfected).

6. If material, review policies for lending on floor plan merchandise, warehouse inventory, and accounts receivable to determine that limitations on such loans and directions on verification of collateral by bank inspection are included in the policies. Ascertain that implementing procedures have been established and test for compliance by responsible bank personnel.

7. Determine whether participations purchased and participations sold transactions have been reported to and authorized by the board of directors or loan committee, if applicable, through review of appropriate minutes.

8. Confirm a sample of participations purchased and participations sold with participating banks to verify that they are legitimate transactions and that they are properly reflected as being with or without recourse in the bank's records.

9. Balance detail ledgers or reconcile computer-generated trial balances with the general ledger control accounts for each major category of loans, including loans carried as past due or in a nonaccrual status.

10. Confirm a sample of all loans within each major category, including past due and nonaccrual loans.

11. From reports to the board on the status of loans identified as warranting special attention, review the disposition of a sample of loans no longer appearing on these reports.

12. Test loan interest income and accrued interest by:

    a. determining the bank's method of calculating and recording interest accruals;
    b. obtaining trial balances of accrued interest;
    c. testing the reconciliation of the trial balances to the general ledger;
    d. determining that interest accruals are not made on nonaccrual loans;
    e. selecting sample items from each major category of loans and:
        i. determining the stated interest rate and appropriate treatment of origination fees and costs,
        ii. testing receipt of payments and correctness of entries to applicable general ledger accounts,
        iii. calculating accrued interest and comparing it to the trial balance, and
        iv. reviewing recorded book value for appropriate accretion of discount (net origination fees) and amortization of premium (net origination costs); and
    f. performing an analytical review of yields on each major category of loan for reasonableness.

ALLOWANCE FOR LOAN LOSSES

1. Test charge-offs and recoveries for proper authorization and/or reporting by reference to the board of directors' minutes. Review charged-off loans for any relationship with bank insiders or their related interests.

2. Review the bank's computation of the amount needed in the allowance for loan losses as of the end of the most recent quarter. Documentation should include consideration of the following matters:

    a. General, local, national and international (if applicable) economic conditions;
    b. Trends in loan growth and depth of lending staff with expertise in these areas;

c. Concentrations of loans (e.g., by type, borrower, geographic area, and sector of the economy);
d. The extent of renewals and extensions to keep loans current;
e. The collectibility of nonaccrual loans;
f. Trends in the level of delinquent and classified loans compared with previous loan loss and recovery experience;
g. Results of regulatory examinations; and
h. The collectibility of specific loans on the "watch list" taking into account borrower financial status, collateral type and value, payment history, and potential permanent impairment.

SECURITIES

1. Review the investment policies and procedures established by the bank's board of directors (BOD). Review the BOD (or investment committee) minutes for evidence that these policies and procedures are periodically reviewed and approved. The policies and procedures should include, but not be limited to:

   a. Investment objectives, including use of "held for sale" and trading activities;
   b. Permissible types of investments;
   c. Diversification guidelines to prevent undue concentration;
   d. Maturity schedules;
   e. Limitation on quality ratings;
   f. Hedging activities and other uses of futures, forwards, options, and other financial instruments;
   g. Handling exceptions to standard policies;
   h. Valuation procedures and frequency;
   i. Limitations on the investment authority of officers; and
   j. Frequency of periodic reports to the BOD on securities holdings.

2. Test the investment procedures and ascertain whether information reported to the BOD (or investment committee) for securities transactions is in agreement with the supporting data by comparing the following information on such reports to the trade tickets for a sample of items (including futures, forwards, and options):

   a. Descriptions
   b. Interest rate
   c. Maturity
   d. Par value, or number of shares
   e. Cost
   f. Market value on date of transaction (if different than cost)

3. Using the same sample items, analyze the securities register for accuracy and confirm the existence of the sample items by examining securities physically held in the bank and confirming the safekeeping of those securities held by others.

4. Balance investment subledger(s) or reconcile computer-generated trial balances with the general ledger control accounts for each type of security.

5. Review policies and procedures for controls which are designed to ensure that unauthorized transactions do not occur. Ascertain through reading of policies, procedures, and BOD minutes whether investment officers and/or appropriate committee members have been properly authorized to purchase/sell investments and whether there are any limitations or restrictions on delegated responsibilities.

6. Obtain a schedule of the book, par, and market values of securities as well as their rating classifications. Test the accuracy of the market values of a sample of securities and compare the ratings listed to see that they correspond with those of the rating agencies. Review the bank's documentation on any permanent declines in value that have occurred among the sample of securities to determine that any recorded declines in market value are appropriately computed. Examine the bank's computation of the allowance account for securities, if any, for proper presentation and adequacy.

7. Test securities income and accrued interest by:

   a. determining the bank's method of calculating and recording interest accruals;
   b. obtaining trial balances of accrued interest;
   c. testing the reconciliation of the trial balances to the general ledger;
   d. determining that interest accruals are not made on defaulted issues;
   e. selecting items from each type of investment and money market holdings and:
      i. determining the stated interest rate and most recent interest payment date of coupon instruments by reference to sources of such information that are independent of the bank,
      ii. testing timely receipt of interest payments and correctness of entries to applicable general ledger accounts,
      iii. calculating accrued interest and comparing it to the trial balance,
      iv. reviewing recorded book value for appropriate accretion of discount and amortization of premium;
   f. performing an analytical review of yields on each type of investment and money market holdings for reasonableness.

8. Review investment accounts for volume of purchases, sales activity and length of time securities have been held. Inquire as to the bank's intent and ability to hold securities until maturity. (If there is frequent trading in an investment account, such activity may be inconsistent with the notion that the bank has the intent and ability to hold securities to maturity.) Test gains and losses on disposal of investment securities by sampling sales transactions and:

a. determining sales prices by examining invoices or brokers' advices;
b. checking for the use of trade date accounting and the computation of book value on trade date;
c. determining that the general ledger has been properly relieved of the investment, accrued interest, premium, discount and other related accounts;
d. recomputing the gain or loss and compare to the amount recorded in the general ledger; and
e. determining that the sales were approved by the BOD or a designated committee or were in accordance with policies approved by the BOD.

INSIDER TRANSACTIONS

1. Review the bank's policies and procedures to ensure that extensions of credit to and other transactions with insiders[5] are addressed. Ascertain that these policies include specific guidelines defining fair and reasonable transactions between the bank and insiders and test insider transactions for compliance with these guidelines and statutory and regulatory requirements. Ascertain that the policies and procedures on extensions of credit comply with the requirements of Federal Reserve Regulation O.

2. Obtain a bank-prepared list of insiders, including any business relationships they may have other than as a nominal customer. Also obtain a list of extensions of credit to and other transactions that the bank, its affiliates, and its subsidiaries have had with insiders that are outstanding as of the audit date or that have occurred since the prior year's external auditing procedures were performed. Compare these lists to those prepared for the prior year's external auditing program to test for completeness.

3. Review the board of directors' minutes, loan trial balances, supporting loan documentation, and other appropriate bank records in conjunction with the list of insiders obtained from the bank to verify that a sample of extensions of credit to and transactions with insiders were:

    a. in compliance with bank policy for similar transactions and were at prevailing rates and terms at that time;
    b. subjected to the bank's normal underwriting criteria and deemed by the bank to involve no more than a normal degree of risk or present no other unfavorable features;

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[5]For purposes of this section of the auditing procedures, insiders include all affiliates of the bank (including its parent holding company) and all subsidiaries of the bank, as those terms are defined in section 23A of the Federal Reserve Act, as well as the bank's executive officers, directors, principal shareholders, and their related interests, as those terms are defined in section 215.2 of Federal Reserve Regulation O.

c. approved by the board of directors in advance with the interested party abstaining from voting; and
d. within the aggregate lending limits imposed by Regulation O or other legal limits.

4. Review the bank's policies and procedures to ensure that expense accounts of individuals who are executive officers, directors, and principal shareholders are addressed and test a sample of the actual expense account records for compliance with these policies and procedures.

INTERNAL CONTROLS

General Accounting and Administrative Controls

1. Review the board of directors' minutes to verify that account reconciliation policies have been established and approved and are reviewed periodically by the BOD. Determine that management has implemented appropriate procedures to ensure the timely completion of reconciliations of accounting records and the timely resolution of reconciling items.

2. Determine whether the bank's policies regarding segregation of duties and required vacations for employees (including those involved in the EDP function) have been approved by the BOD, and verify that these policies and the implementing procedures established by management are periodically reviewed, are adequate, and are followed.

3. Confirm a sample of deposits in each of the various types of deposit accounts maintained by the bank. Inquire about controls over dormant deposit accounts.

4. Test to determine that reconciliations are prepared for all significant asset and liability accounts and their related accrued interest accounts, if any, such as "due from" accounts; demand deposits; NOW accounts; money market deposit accounts; other savings deposits; certificates of deposit; and other time deposits. Review reconciliations for:

   a. timeliness and frequency;
   b. accuracy and completeness; and
   c. review by appropriate personnel with no conflicting duties.

5. Compare a sample of balances per reconciliations to the general ledger and supporting trial balances.

6. Examine detail and aging of a sample of reconciling items from those accounts whose reconciliations have been tested and reviewed and a sample of items in suspense, clearing, and work-in-process accounts by:

   a. testing aging;
   b. determining whether items are followed up on and appropriately resolved on a timely basis; and

c. discussing items remaining on reconciliations and in the suspense account with appropriate personnel to ascertain whether any should be written off.

Review a sample of charged-off reconciling and suspense items for proper authorization.

7. Verify through inquiry and observation that the bank maintains adequate records of its off-balance sheet activities, including, but not limited to, its outstanding letters of credit and its loan commitments. Review the bank's procedures for monitoring the extent of its credit exposure from such activities to determine whether probable or reasonably possible losses exist.

<u>Electronic Data Processing Controls</u>

1. Read the BOD's minutes to determine whether the BOD has reviewed and approved the bank's electronic data processing (EDP) policies (including those regarding outside servicers, if any, and the in-house use of individual personal computers (PCs) and personalized programs for official bank records) at least annually, confirm that management has established appropriate implementing procedures, and verify the bank's compliance with these policies and procedures.

   a. The policies and procedures for either in-house processing or use of an outside service center should include:

      i. a contingency plan for continuation of operations and recovery when power outages, natural disasters, or other threats could cause disruption and/or major damage to the institution's data processing support (including compatibility of servicer's plan with that of the bank);[6]
      ii. requirements for EDP-related insurance coverage which include the following provisions:
         (1) extended blanket bond fidelity coverage to employees of the bank or servicer;
         (2) insurance on documents in transit, including cash letters; and
         (3) verification of the insurance coverage of the bank or service bureau and the courier service;
      iii. review of exception reports and adjusting entries approved by supervisors and/or officers;
      iv. controls for input preparation and control and output verification and distribution;

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[6]For further guidance, see the July 1989, FFIEC Policy on Contingency Planning for Financial Institutions and Section 7 of the FFIEC EDP Examination Handbook.

v. "back-up" of all systems, including off-premises rotation of files and programs;
vi. security to ensure integrity of data and system modifications; and
vii. necessary detail to ensure an audit trail.

b. When an outside service center is employed, the policies and procedures should address the following additional items:

i. the requirement for a written contract for each automated application detailing ownership and confidentiality of files and programs, fee structure, termination agreement, and liability for documents in transit;
ii. review of each contract by legal counsel; and
iii. review of each third party review of the service bureau, if any.[7]

2. In the area of general EDP controls, determine through inquiry and observation that policies and procedures have been established for:

a. Management and user involvement and approval of new or modified application programs;
b. Authorization, approval and testing of system software modifications;
c. The controls surrounding computer operations processing;
d. Restricted access to computer operations facilities and resources including:
   i. off-premises storage of master disks and PC disks;
   ii. security of the data center and bank's PCs; and
   iii. use and periodic changing of passwords.

3. With respect to EDP applications controls, inquire about and observe:

a. The controls over:
   i. Input submitted for processing,
   ii. Processing transactions,
   iii. Output,
   iv. Applications on PCs, and
   v. Telecommunications both between and within bank offices;
b. The security over unissued or blank supplies of potentially negotiable items; and
c. The control procedures on wire transfers including:
   i. Authorizations and agreements with customers, including who may initiate transactions,
   ii. Limits on transactions, and
   iii. Call back procedures.

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[7]For further guidance on using a third-party report, see the American Institute of Certified Public Accountant's Audit and Accounting Guide, Audits of Service-Center Produced Records.

Auditor's Report to the Bank's Board of Directors

After the completion of the auditing procedures (or agreed-upon procedures) set forth above, the independent auditor should evaluate the results of his/her auditing work. The auditor should prepare and promptly submit a report addressed to the board of directors (or audit committee) of the bank detailing the findings and suggestions resulting from the performance of these auditing procedures.

Independent auditors should include in their report, as a minimum, (1) the accounts or items on which the procedures were applied; (2) the sampling method(s) used; (3) the procedures and agreed-upon extent of testing performed; (4) the accounting basis (either generally accepted accounting principles [GAAP] or the instructions for the preparation of the Reports of Condition and Income [Call Reports]) on which the accounts or items being audited are reported; (5) the auditor's findings; and (6) the date as of which the procedures were performed. The auditor should sign and date the report, which should also disclose the auditor's business address. The report submitted by an independent auditor who is a certified public accountant should be rendered in accordance with the requirements of Statement on Auditing Standards (SAS) No. 35, "Special Reports—Applying Agreed-upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement," and SAS No. 62, "Special Reports." Other independent auditors may wish to refer to these auditing standards for guidance in preparing their reports.

The bank is requested to send a copy of this report to the appropriate FDIC regional office as soon as possible after its receipt.

By order of the Board of Directors. Dated at Washington, D.C., this ________ day of ______________, 1990.

FEDERAL DEPOSIT INSURANCE CORPORATION

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Hoyle L. Robinson
Executive Secretary

(SEAL)