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OCC Memorandum of Understanding with Wachovia

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MEMORANDUM OF UNDERSTANDING

Wachovia Bank, N.A., Charlotte, North Carolina ("Bank") and the Comptroller of the Currency of the United States of America ("Comptroller") wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules, and regulations.

In consideration of the above premise, the Comptroller, through his authorized representative, and the Bank, by and through its duly elected and acting Board of Directors ("Board"), do hereby agree that the Bank shall at all times operate in compliance with the articles of this Memorandum of Understanding ("MOU").

Unless notified otherwise by the Deputy Comptroller, all actions, reports, plans, programs, and written assessments which the Bank has agreed to submit pursuant to this MOU shall be forwarded to:

Michael L. Brosnan
Deputy Comptroller, Large Bank Supervision
Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 6-1
Washington, D.C. 20219

with a copy to be hand-delivered to:

David K. Wilson
Examiner-in-Charge, Large Bank Supervision
Office of the Comptroller of the Currency
Wachovia Bank, N.A.
Two Wachovia Center
301 South Tryon Street, T-16/NC0100
Charlotte, North Carolina 28288

ARTICLE I

COMPLIANCE COMMITTEE

- (1) Within ten (10) days of the date of this MOU, the Board shall appoint a Compliance Committee of at least three (3) or more outside directors who are not executive

officers of the Bank or its holding company, as defined in 12 C.F.R. § 215.2(e)(1) of Regulation O.

(2) Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member, shall be submitted in writing to the Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this MOU.

(3) The Compliance Committee shall meet at least monthly.

(4) Within thirty (30) days of the date of this MOU and every thirty (30) days thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

(a) a description of the action needed to achieve full compliance with each Article of this MOU;

(b) actions taken to comply with each Article of this MOU; and

(c) the results and status of those actions.

(5) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Deputy Comptroller within ten (10) days of receiving such report.

ARTICLE II

ACTION PLAN

(1) Within thirty (30) days, the Board shall adopt a written action plan:

(a) detailing the Board's assessment of what needs to be done to address the concerns cited in Office of the Comptroller of the Currency ("OCC") supervisory communications including, but not limited to, Matters Requiring

Attention identified in the OCC Report of Examination for the exam cycle ending June 30, 2008, and Articles III through IX of this MOU;

- (b) specifying how the Board will implement the plan; and
 - (c) setting forth a timetable for the implementation of the plan.
- (2) The Board shall establish appropriate procedures for the implementation of the plan.
- (3) Upon completion of the plan, the Board shall submit the plan to the Deputy Comptroller for prior written determination of no supervisory objection. In the event the Deputy Comptroller recommends changes to the action plan, the Board shall incorporate those changes into the plan. Upon receiving a written determination of no supervisory objection from the Deputy Comptroller, the Bank shall immediately implement and adhere to the plan.
- (4) The plan shall be implemented pursuant to the time frames set forth within the plan unless events dictate modifications to the plan. Where the Board considers modifications appropriate, those modifications shall be submitted to the Deputy Comptroller for prior written determination of no supervisory objection. Upon receiving a written determination of no supervisory objection from the Deputy Comptroller, the Bank shall implement and adhere to the plan.
- (5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

ARTICLE III

BOARD OVERSIGHT

(1) The Board shall take such actions necessary to ensure its effective supervision of the Bank's affairs and that information provided to the Board is timely, meaningful, and adequately portrays the condition of the Bank and addresses risks impacting the Bank. Within sixty (60) days, the Board shall assess its supervisory oversight role and the reporting process of the Bank and develop a plan to address any deficiencies revealed by the assessment.

(2) Upon completion of the assessment and plan, the Board shall submit the assessment and the plan to the Deputy Comptroller for prior written determination of no supervisory objection. In the event the Deputy Comptroller recommends changes to the plan, the Board shall incorporate those changes into the plan. Upon receiving a written determination of no supervisory objection from the Deputy Comptroller, the Bank shall immediately implement and adhere to the plan.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

ARTICLE IV

MANAGEMENT

(1) Within sixty (60) days, the Board shall ensure that the Bank has competent management in place to execute the Board's policies, ensure compliance with this MOU, applicable laws, rules, and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner.

(2) Within sixty (60) days, the Board shall ensure that adequate processes are in place to hold management accountable when it fails to execute the Board's policies, ensure compliance with this MOU, applicable laws, rules, and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner.

(3) Within sixty (60) days, the Board shall review compensation programs to ensure the programs support an appropriate risk culture and the management of the Bank within established risk tolerances.

ARTICLE V

STRATEGIC PLAN

(1) Within one hundred and twenty (120) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written strategic plan for the Bank covering at least a three-year period. The strategic plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development, and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives and, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) an assessment of the Bank's present and future operating environment;
- (c) the development of strategic goals and objectives to be accomplished over the short and long term;

- (d) an identification of the Bank's present and future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in (1)(c) of this Article;
- (e) an evaluation of the Bank's internal operations, staffing requirements, Board and management information systems, and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(c) of this Article;
- (f) a management employment and succession program to promote the retention and continuity of capable management;
- (g) product line development and market segments that the Bank intends to promote or develop;
- (h) an action plan to improve Bank earnings and accomplish identified strategic goals and objectives, including individual responsibilities, accountability, and specific time frames;
- (i) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the strategic plan;
- (j) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;
- (k) specific plans to establish responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment; and

(1) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(2) Upon adoption, a copy of the strategic plan shall be forwarded to the Deputy Comptroller for review and prior written determination of no supervisory objection. In the event the Deputy Comptroller recommends changes to the plan, the Board shall incorporate those changes into the plan. Upon receiving a written determination of no supervisory objection from the Deputy Comptroller, the Bank shall implement and adhere to the strategic plan.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

ARTICLE VI

RISK MANAGEMENT PLAN

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written risk management plan to include, at a minimum, the following:

- (a) an identification of major financial risks impacting the institution, particularly strategic, reputation, credit, and liquidity and a written analysis of those risks;
- (b) action plans and time frames to reduce risks where exposure is high and that directly impact the condition of the Bank;
- (c) policies, procedures, or standards which limit the degree of risk the Board is willing to incur, consistent with the Bank's strategies and financial condition.

The procedures shall ensure that strategic direction and risk tolerances are effectively communicated and followed throughout the Bank and shall describe the actions to be taken where noncompliance with risk policies is identified;

- (d) clearly defined roles and responsibilities of business and risk management and control functions. Additionally, the Board shall ensure the independence of risk management and their authority to execute their responsibilities;
 - (e) systems to measure and control risks within the Bank;
 - (f) procedures to ensure that Bank employees have the necessary skills to supervise effectively the current and new business risks within the Bank, and procedures to describe the actions to be taken to address deficiencies in staff levels and skills;
 - (g) the development and maintenance of improved risk management information systems that are timely, accurate, and pertinent to the major risks impacting the Bank;
 - (h) policies and procedures that provide the stature and authority to risk management personnel to discontinue or escalate practices and businesses outside of established risk tolerances; and
 - (i) policies and procedures that provide for effective credible challenge of new products, investments, or acquisitions.
- (2) The risk management plan shall be consistent with the Comptroller's Handbook, circulars, bulletins, advisories, and applicable laws, rules, and regulations.
- (3) Upon completion of the risk management plan, the Board shall submit it to the Deputy Comptroller for prior written determination of no supervisory objection. In the event the Deputy Comptroller recommends changes to the plan, the Board shall incorporate those changes into the plan. Upon receiving a written determination of no supervisory objection from the Deputy Comptroller, the Bank shall immediately implement and adhere to the risk management plan.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

ARTICLE VII

CREDIT RISK

(1) Within thirty (30) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to reduce the high level of classified assets and decrease the overall credit risk in the Bank. The credit risk management program shall include, but not be limited to:

- (a) an action plan to reduce the level of problem assets subject to criticism;
- (b) the development of aggregate reporting that tracks credit risk reduction and establishes goals and asset quality targets for the short term (6 months) and the intermediate term (12-24 months);
- (c) working with troubled residential real estate borrowers while also adhering to safe and sound banking practices that include timely and proper recognition of nonaccruals, troubled debt restructurings, and losses;
- (d) proactively reducing long-term risk via refinances of Pick-a-Pay mortgages into amortizing products using proprietary or government-sponsored programs and/or asset sales;
- (e) the development of improved credit risk aggregation and portfolio governance processes and more clearly established tools to enforce credit risk tolerances across the corporation, including:

- (i) formalizing warehouse/pipeline risk limits relative to capital or earnings at risk;
 - (ii) coordinating hedges across business areas;
 - (iii) increasing servicing and collection efforts; and
 - (iv) adhering to house limit hold levels.
- (f) credit risk policies and procedures that clearly define portfolio objectives, risk tolerance limits, concentrations, credit selection, product structure, and underwriting criteria, for loans the Bank originated-for-sale and originated-for-book;
- (g) an enhanced stress testing process from an enterprise-wide portfolio management perspective for significant portfolios; and
- (h) policies requiring that loans intended to be sold be underwritten in a manner that is reasonably consistent with the standards the Bank would use if holding the loan on its own books.

(2) Upon completion, the Bank's credit risk management program shall be submitted to the Deputy Comptroller for prior written determination of no supervisory objection. In the event the Deputy Comptroller recommends changes to the credit risk management program, the Board shall incorporate those changes into the program. Upon receiving a written determination of no supervisory objection from the Deputy Comptroller, the Bank shall implement and adhere to the credit risk management program.

(3) The Board shall ensure that a written assessment of the Bank's credit risk is prepared, at least quarterly, which shall evaluate the Bank's progress under the aforementioned

program. The Board shall submit a copy of this assessment to the Deputy Comptroller upon completion.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE VIII

LIQUIDITY ASSESSMENT PROCESS AND PLAN

(1) Within sixty (60) days, the Board shall develop and implement a process for assessing the Bank's liquidity and develop and implement a plan to improve and sustain the Bank's liquidity to ensure that it is sufficient to sustain the Bank's operations and to withstand any anticipated or extraordinary demand against its funding base. The Board shall ensure Bank adherence to a liquidity assessment process and plan that shall include, but not be limited to:

- (a) the development of highly adverse stress scenarios for liquidity, updated monthly;
- (b) monthly evaluations of near-term and long-term contingency planning;
- (c) revised descriptions of stress scenarios to incorporate experiences and observations from the market disruption; and
- (d) stress and contingency funding planning processes that are comprehensive and identify entities in the consolidated company that could place a demand on the Bank's or the Bank's holding company's funding. Assessment of the funding risk should include contingent liabilities that are legally binding, as well as products or lines of business that the Bank would support during a crisis because of reputation risk.

(2) Upon completion, the Board shall submit the liquidity assessment process and plan to the Deputy Comptroller for prior written determination of no supervisory objection. In the event the Deputy Comptroller recommends changes to the liquidity assessment process and plan, the Board shall incorporate those changes. Upon receiving a written determination of no supervisory objection from the Deputy Comptroller, the Bank shall implement and adhere to the liquidity assessment process and plan.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the assessment process and plan developed pursuant to this Article.

ARTICLE IX

CAPITAL ASSESSMENT PROCESS AND PLAN

(1) Within sixty (60) days, the Board shall develop and implement a process for assessing the Bank's overall capital adequacy in relation to the Bank's risk profile and develop and implement a plan for maintaining the Bank's capital at adequate levels. The Board shall ensure Bank adherence to a capital assessment process and plan that shall include, but not be limited to:

- (a) a formal stress testing process that identifies potential drains on capital levels and the avenues available to address these concerns; and
- (b) a dividend policy that permits the declaration of a dividend only:
 - (i) after the Bank makes the determination that payment of such dividend adheres to the Bank's plan for maintaining the Bank's capital at adequate levels; and
 - (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60.

(2) Upon completion, the Bank's capital assessment process and plan shall be submitted to the Deputy Comptroller for prior written determination of no supervisory objection. In the event the Deputy Comptroller recommends changes to the capital assessment process and plan, the Board shall incorporate those changes. Upon receiving a written determination of no supervisory objection from the Deputy Comptroller, the Bank shall implement and adhere to the capital assessment process and plan.

(3) The Board shall review and update the Bank's capital assessment process and plan on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Deputy Comptroller upon completion.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the assessment process and plan developed pursuant to this Article.

ARTICLE X

CLOSING

(1) Although the Board has by this MOU consented to submit certain proposed actions, reports, plans, programs, and written assessments to the Deputy Comptroller for review, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this MOU shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time requirements specified by this MOU shall begin to run from the effective date of this MOU. Such time requirements may be extended in writing by the Deputy Comptroller for good cause upon written application by the Board.

(4) This MOU shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to this MOU or excepted, waived, or terminated in writing by the Comptroller or his duly authorized representative.

(5) In each instance in this MOU in which the Board is required to ensure adherence and to undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

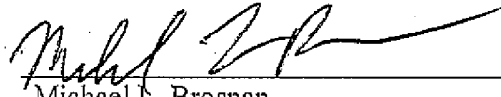
- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this MOU;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this MOU;
- (c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(6) This MOU expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has

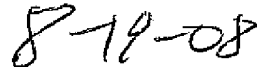
statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller's exercise of his supervisory responsibilities. The terms of this MOU, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has

hereunto set his hand on behalf of the Comptroller.



Michael L. Brosnan
Deputy Comptroller
Large Bank Supervision
Office of the Comptroller of the Currency



Date

