Other Assets and Liabilities

The term, other assets, represents a balance sheet category for miscellaneous assets not appropriately included in other major asset categories. Such assets are typically nonearning and often represent a small percentage of a savings association's total assets.

Other assets might include the following items:

- Federal Home Loan Bank (FHLB) stock.
- Stock in the Student Loan Marketing Association, or Farm Credit District Bank.
- Accrued FHLB dividends.
- Federal, state, or other taxes receivable.
- Net deferred tax assets per SFAS 109.
- Insured portion of real estate owned on VA or FHA-HUD loans while title is held pending conveyance.

LINKS
Program

- Prepaid deposit insurance premiums.
- Prepaid expenses.
- Value of margin accounts held for financial futures and options contracts.
- Deferred net gains and losses on asset hedges.
- Goodwill and other intangible assets.
- Capitalized organization costs.
- Purchased loan servicing rights.
- Excess loan servicing.
- Personal property owned by the savings association and leased to others.

- Accounts receivable.
- Prepaid expenses.
- Accrued income receivable.
- Suspense items.
- Miscellaneous items.
- Cash surrender value of life insurance policies.
- Claims and judgments where collection is likely.
- Premiums (gifts) for business promotions.

The Thrift Financial Report Instructions, Consolidated Statement of Condition, outlines the reporting of other assets. It is important to review a savings association's other assets and liabilities because you may find a significant level of poor quality assets in associations lacking adequate internal controls and accounting procedures.

Materiality and inherent risk assessments are the major factors in deciding which accounts to review in the examination of a savings association. You should not spend valuable time trying to analyze the nature and quality of each item. This is true especially for small items or assets with little inherent risk of loss and an insignificant effect on the safety and soundness or quality of earnings of the savings association. A savings association with good controls and review systems will periodically purge all uncollectible, unreconcilable suspense items. Depending on the level of risk, you may have to go beyond the general ledger control accounts and scan the underlying subsidiary ledgers. This allows you to determine that posting errors and the common practice of netting certain accounts against each other does not hide significant balances.

Savings associations should maintain sufficient supporting documentation for each item in the other assets category. You should thoroughly review stale or suspense items that remain in an account for extended periods of time. You should ensure that the savings association is following a consistent approach in managing its assets. Review the savings association's policies and practices for the following unsafe and unsound actions:

- Failing to consistently administer adequate procedural controls over items categorized as other assets.
- Continuing to amortize assets after they have lost their value (savings associations should charge off such assets).
- Using suspense accounts to hide or postpone the proper booking of accounts.

- Establishing deferrals for assets that have no future value.

- Using recordkeeping procedures that result in unsupported original entries for asset acquisitions and unsupported amortizations or charge-offs.

In addition, you should review whether the savings association appropriately classifies other assets. Savings associations should charge off or establish a specific reserve for any asset or portion of an asset considered uncollectible. Savings associations should classify assets that exhibit weaknesses but not deemed uncollectible based on the criteria in Section 260, Classification of Assets.

You should also verify that the savings association accounts for net deferred tax assets and include them in regulatory capital, according to the limitations of SAS No. 109 and Thrift Bulletin 56.

Cash Value Life Insurance

Some savings associations purchase cash value life insurance to fill various business needs, including the funding of employee compensation plans, insuring loans against the death of a principle borrower, providing key-man coverage, etc. Savings associations should carefully evaluate large investments in cash value life insurance especially if policy expenses are material. See Appendix A for a discussion of and OTS guidance relating to thrift investments in cash value life insurance.

OTHER LIABILITIES

Other liabilities is a balance sheet category for those accounts that the savings association does not identify individually because of their relative insignificance. The anonymity of the caption may invite misuse, both inadvertent and deliberate. Other liabilities include the following items:

- Declared but unpaid cash dividends on stock.

- Deferred net gains and losses on liability hedges.

- Nonrefundable loan commitment fees.

- Balance in certain U.S. Treasury tax and loan accounts.

- Deferred gains on sale of real estate recorded under percent completion method pursuant to SFAS No. 66.

- Amounts payable under interest rate swap agreements.

- Amounts due brokers between trade and settlement dates on purchased securities.

- Unapplied loan payment that the savings association will credit to the customer’s account as of the date of receipt.

- Other similar suspense item liabilities.
- Liability created when a servicer does not expect the benefits of a loan servicing contract to provide adequate compensation.

Refer to the Thrift Financial Report Instructions, Consolidated Statement of Condition, for a more complete list of other liabilities and their proper reporting.

As with other assets, the association should maintain sufficient supporting documentation for each item in the other liabilities category. Your major emphasis in the other liabilities area should be the adequacy of the controls and procedures used by the association to promptly record the proper amount of liability. If not properly supervised, the savings association or individuals may use other assets and liabilities to conceal shortages. When examining this part of the balance sheet, you may detect the following unsafe and unsound practices or conditions:

- Savings association overdrafts.
- Defalcations.
- Inaccuracies in Thrift Financial Reports.
- Unresolved differences between the general ledger and supporting subsidiary records.
- Contingent liabilities for items such as taxes, legal services, employee compensation and pensions, equipment, and claims for damages.
- Manipulation of net income by recording income or improperly reporting or under-accruing other liabilities.
- Failure to record all material liabilities adequately and accurately.
- Failure to discharge liabilities according to their terms and requirements.

The following obligations or circumstances that the savings association may have incurred and not recorded on the association's books could result in direct or contingent liabilities:

- Planned payments of bonuses or special compensation to officers or directors.
- Unpaid federal and other taxes that the savings association disputes.
- Anticipated settlements of pending tax litigation in excess of recorded amounts of liability.
- Employment contracts.
- Inadequate insurance coverage for potential lawsuits or claims for damages.

- Equipment contracts.

REFERENCES

Code of Federal Regulations (12 CFR)

§ 560.160	Classification of Certain Assets
§ 563.41	Loans and Other Transactions With Affiliates and Subsidiaries
§ 563.42	Additional Standards Applicable to Transactions With Affiliates and Subsidiaries
§ 563.43	Loans by Savings Associations to Their Executive Officers, Directors, and Principal Shareholders
§ 563.200	Conflicts of Interest

Office of Thrift Supervision Bulletins

TB 56	Deferred Tax Assets: OTS Guidelines on Regulatory Reporting; Transition Rule

Financial Accounting Standards Board, Statement of Financial Accounting Standard

SFAS No. 106	Employers' Accounting for Post-Retirement Benefits Other Than Pensions
SFAS No. 109	Accounting for Income Taxes
SFAS No. 115	Accounting for Certain Debt and Equity Securities

Accounting Principles Board (APB) Opinions

APB No. 12	Deferred Compensation Contracts
APB No. 21	Interest on Receiveables and Payables

Other Accounting References

Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance

America's Community Bankers, Accounting Principles for Savings Associations

OCC Bulletin 2000-23 Bank Purchases of Life Insurance