

**WYOMING DIVISION OF BANKING'S STATEMENT ON  
UNSAFE AND UNSOUND BANKING PRACTICES**

**October 7, 1999**

"Unsafe or unsound practices" can result from either action or lack of action by management. Wyoming's Banking Statutes do not define the term "unsafe or unsound practices"; however, the State Banking Commissioner has established examples of such practices, some of which are listed below.

**Lack of Action Deemed "Unsafe or Unsound":**

1. Failure to provide adequate supervision and direction over the officers of the bank to prevent unsafe or unsound practices, and violation(s) of laws, rules and regulations.
2. Failure to make provision for an adequate reserve for possible loan losses.
3. Failure to post the general ledger promptly.
4. Failure to keep accurate books and records.
5. Failure to account properly for transactions.
6. Failure to enforce programs for repayment of loans.
7. Failure to obtain or maintain on premises evidence of priority of liens on loans secured by real estate.

**Actions Deemed "Unsafe or Unsound":**

1. Operating with an inadequate level of capital for the kind and quality of assets held.
2. Engaging in hazardous lending and lax collection practices including, but not limited to, the following: extending credit which is inadequately secured; extending credit without first obtaining complete and current financial information; extending credit in the form of overdrafts without adequate controls; and extending credit with inadequate diversification of risk.
3. Operating without adequate liquidity, in light of the bank's asset and liability mix.
4. Operating without adequate internal controls including the following: failing to maintain controls on official checks and unissued certificates of deposit; failing to segregate duties of bank personnel; and failing to reconcile differences in correspondent bank accounts.
5. Engaging in speculative or hazardous investment policies.
6. Paying excessive dividends in relation to the bank's capital position, earnings capacity and asset quality.

## **Conditions Considered "Unsafe or Unsound"**

As in the case of unsafe or unsound practices, it is impossible to define precisely what constitutes an unsafe or unsound condition because the condition of the bank is dependent upon an analysis of virtually every aspect of the bank's operation and position within a given time frame. As minimums, the bank's capital position, asset condition, management, earnings posture and liquidity position, must be carefully evaluated. While precise definition of unsafe or unsound condition is not possible, it is certain that a bank's condition need not deteriorate to a point where it is on the brink of insolvency before its condition may be found to be unsafe or unsound.

### ***The following have been determined to be evidence of unsafe or unsound conditions:***

1. Maintenance of unduly low net interest margins.
2. Excessive overhead expenses.
3. Excessive volume of loans subject to adverse classification.
4. Excessive net loan losses.
5. Excessive volume of overdue loans.
6. Excessive volume of nonearning assets.
7. Excessive large liability dependence.