



Ron Feldman  
Federal Reserve Bank of Minneapolis  
May 6, 2015

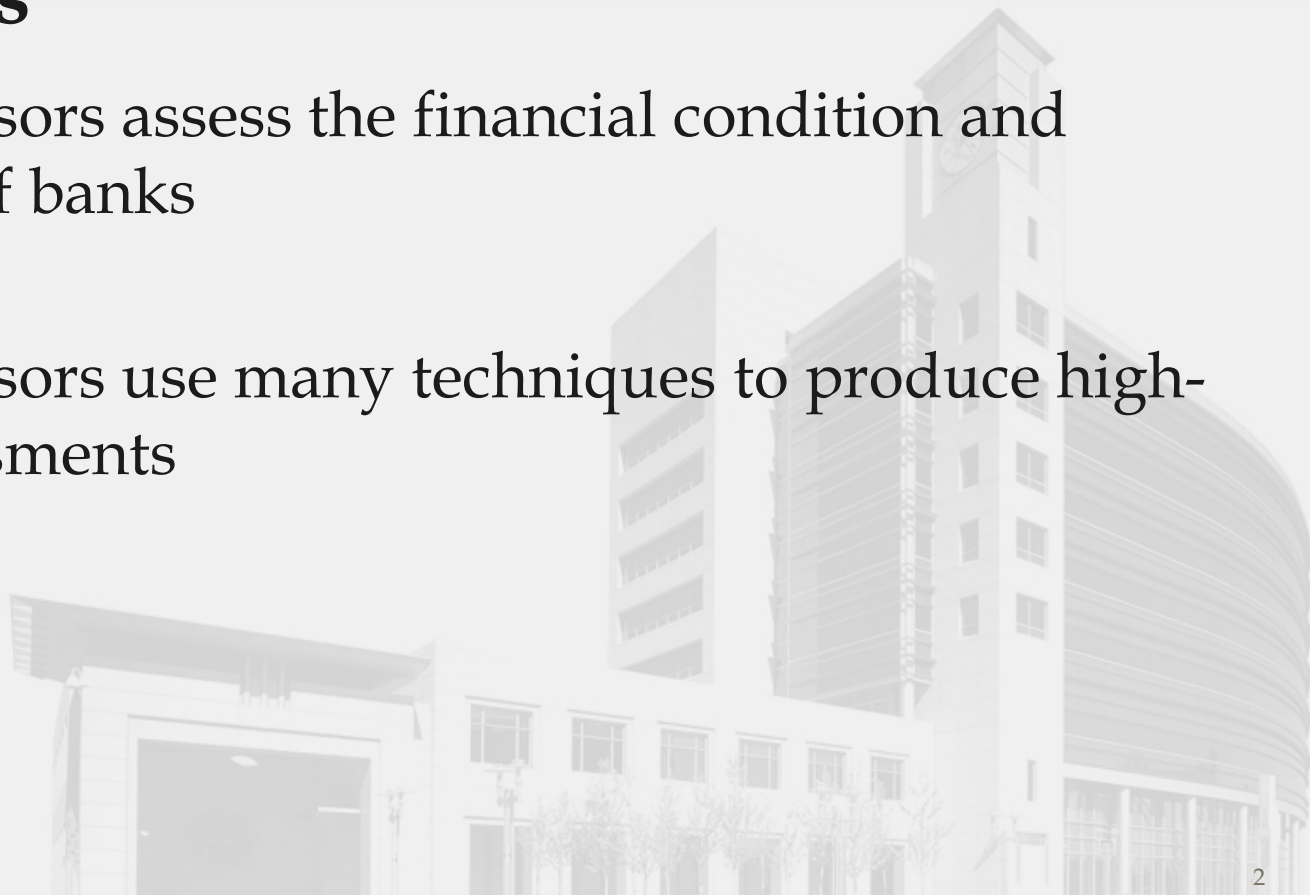


FEDERAL RESERVE BANK *of* MINNEAPOLIS



# Bottom Lines

- Bank supervisors assess the financial condition and compliance of banks
- Bank supervisors use many techniques to produce high-quality assessments





# Banking Supervision Focus

- Focus tonight is on **supervision** of commercial **banks** and **bank holding companies**
- Will not discuss regulation
- Will not discuss supervision of other financial institutions (e.g. credit unions)



# Five Bank Supervisors Making Assessment





# Federal Reserve Structure

- Supervision is one of multiple Federal Reserve responsibilities
- Supervision and Regulation controlled by Board of Governors (BOG)
  - Governors are appointed by President and confirmed by U.S. Senate
- BOG delegates supervision to Federal Reserve Banks
  - Extensive oversight of supervision by BOG



# Key Features of Assessments

- Bank assessments focus on:
  - Risk management
    - Bank board and management oversight
    - Risk monitoring and management information systems
    - Policies, procedures and limits
    - Internal controls
  - Financial condition
  - Compliance with guidance/rules/law
  - Testing bank's activities



# Key Features of Assessments

- Assessments done on and off bank premises
- Assessments differ by size/complexity of bank
  - Smaller banks face point in time assessments; larger banks face continuous review
  - Large banks reviewed by dedicated teams
  - Large banks face more system-wide reviews such as “capital stress test”



# Key Features of Assessments

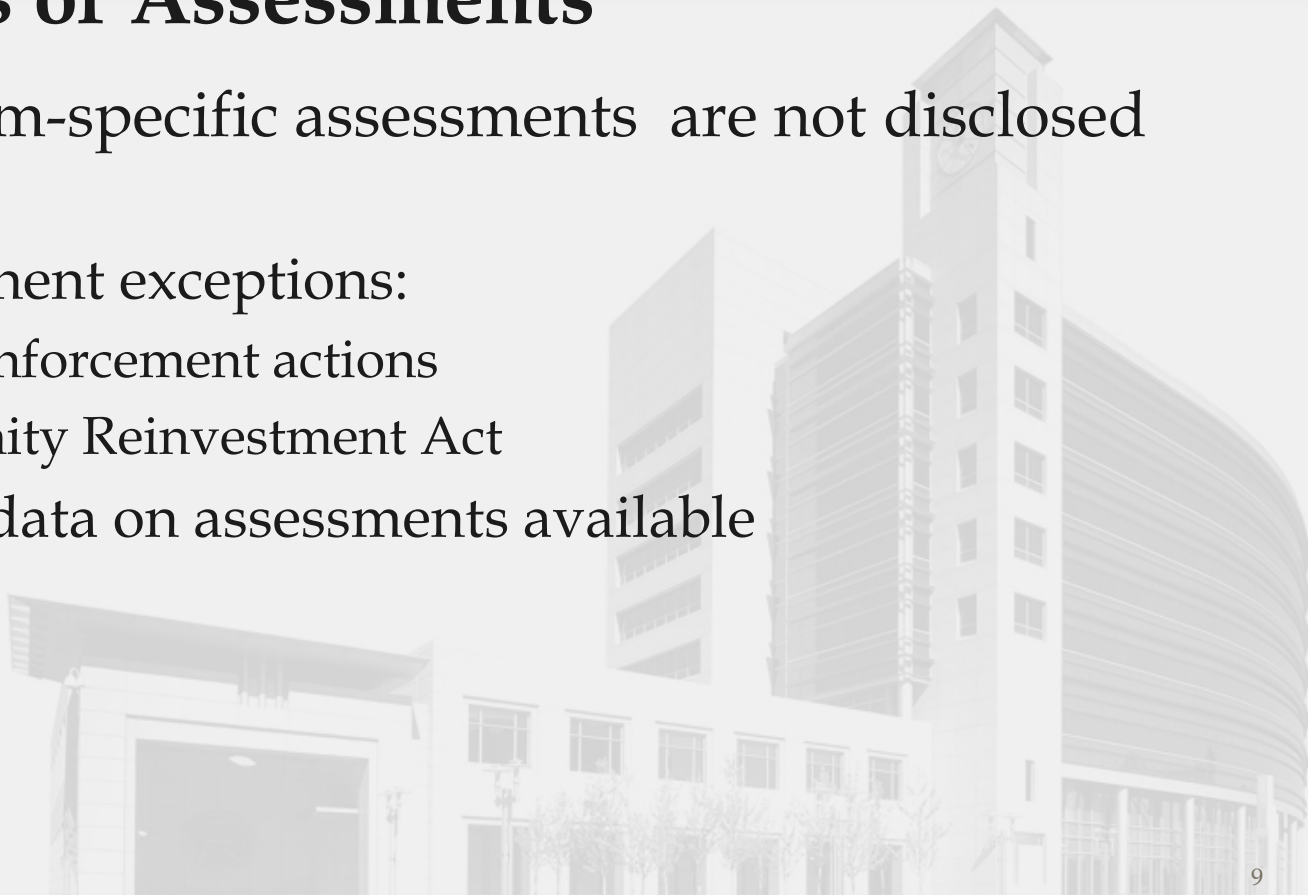
- Assessments provided in report of examination and summarized by ratings
- Beyond ratings, examinations produce “findings” that banks must address
  - Matters requiring attention and matters requiring immediate attention
- Significant enough findings lead to enforcement actions
  - Informal
  - Formal





# Key Features of Assessments

- Almost all firm-specific assessments are not disclosed to public
  - Two prominent exceptions:
    - Formal enforcement actions
    - Community Reinvestment Act
  - Aggregate data on assessments available





# Three Main Assessments

- Bank safety and soundness
- Bank consumer compliance
- Bank Holding Company



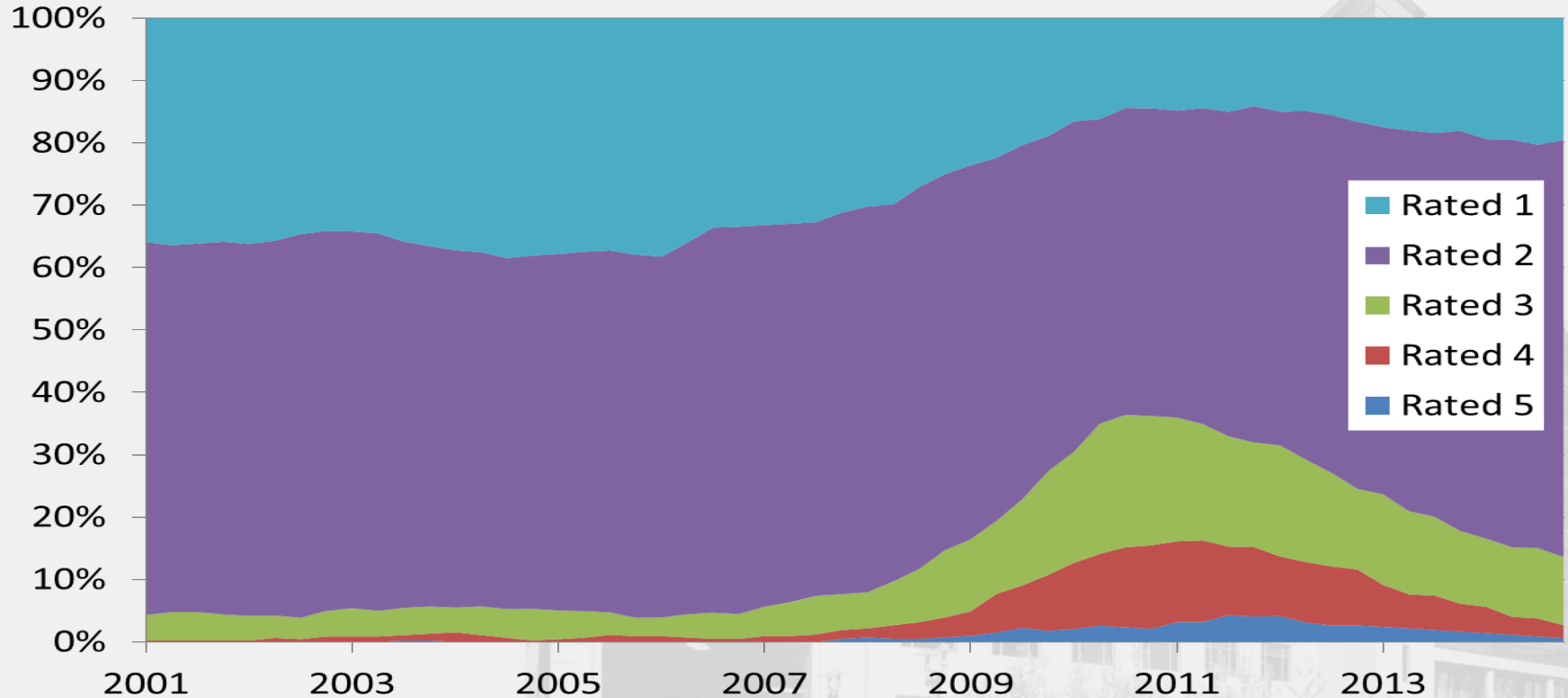


# Bank Safety/Soundness Supervision

- CAMELS Ratings Framework
- 1 (Strong) through 5 (Critically Deficient)
- “Composite” and “Components”



# CAMELS Composite Ratings of MN Banks (YE 2014)





# Bank Safety/Soundness Supervision

- Components
  - Capital
  - Asset quality
  - Management
  - Earnings
  - Liquidity
  - Sensitivity





# Specialty Reviews

- Information technology
- Compliance with anti-money laundering and Bank Secrecy Act
- Trust operations





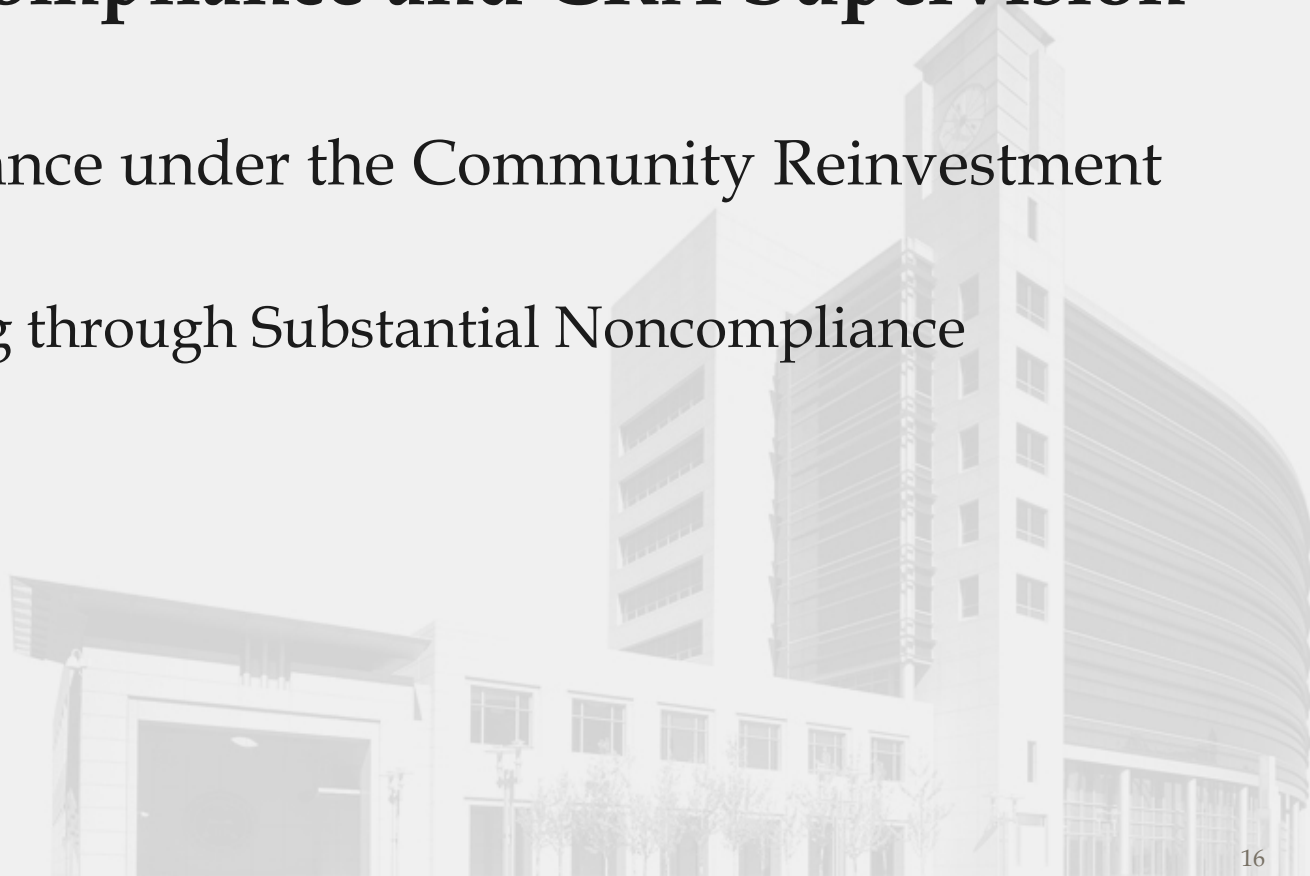
# Consumer Compliance and CRA Supervision

- Rate consumer compliance program
  - 1 through 5 rating system
  - Review key aspects of program bank uses to comply with consumer protection regulations
  - Review compliance with specific regulations/laws
    - Example: Fair Lending



# Consumer Compliance and CRA Supervision

- Rate performance under the Community Reinvestment Act
  - Outstanding through Substantial Noncompliance







# Bank Holding Companies

- Banks often owned by Bank Holding Companies (BHCs)
- Most BHCs own just a bank and have limited activity
- A small number of BHCs are large and complex



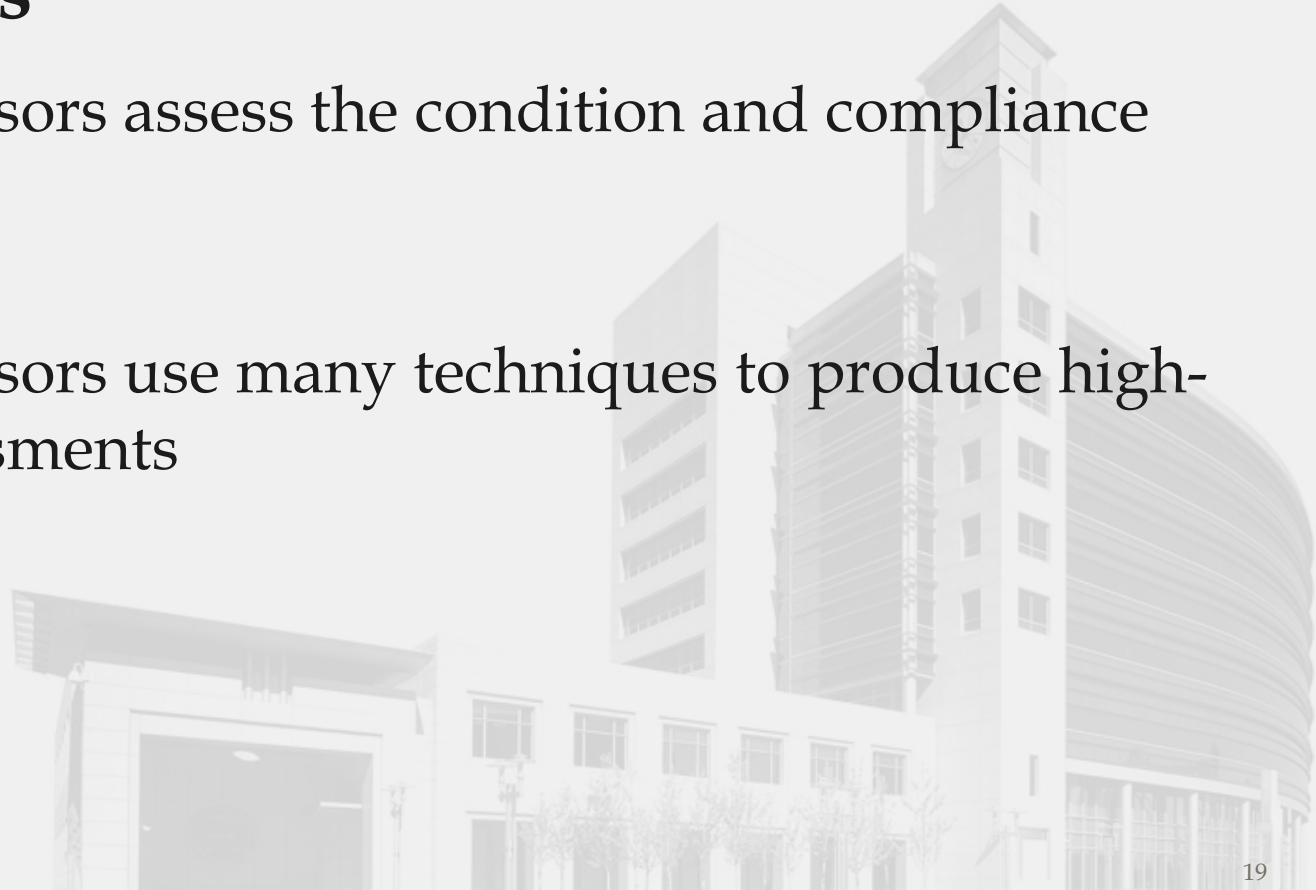
# BHC Supervision

- Source of strength
- RFI/C (D) Framework (1 through 5)
  - Risk management
  - Financial condition
  - Impact of non-depository entities on the subsidiary depository institutions
  - Composite
  - (Depository institution)



# Bottom Lines

- Bank supervisors assess the condition and compliance of banks
- Bank supervisors use many techniques to produce high-quality assessments





# Five Key Tools for Producing High-Quality Assessments

- Attract and retain great employees
- Train employees well
- Set assessment standards
- Conduct multi-layer review of assessments
- Address potential conflicts of interest with staff



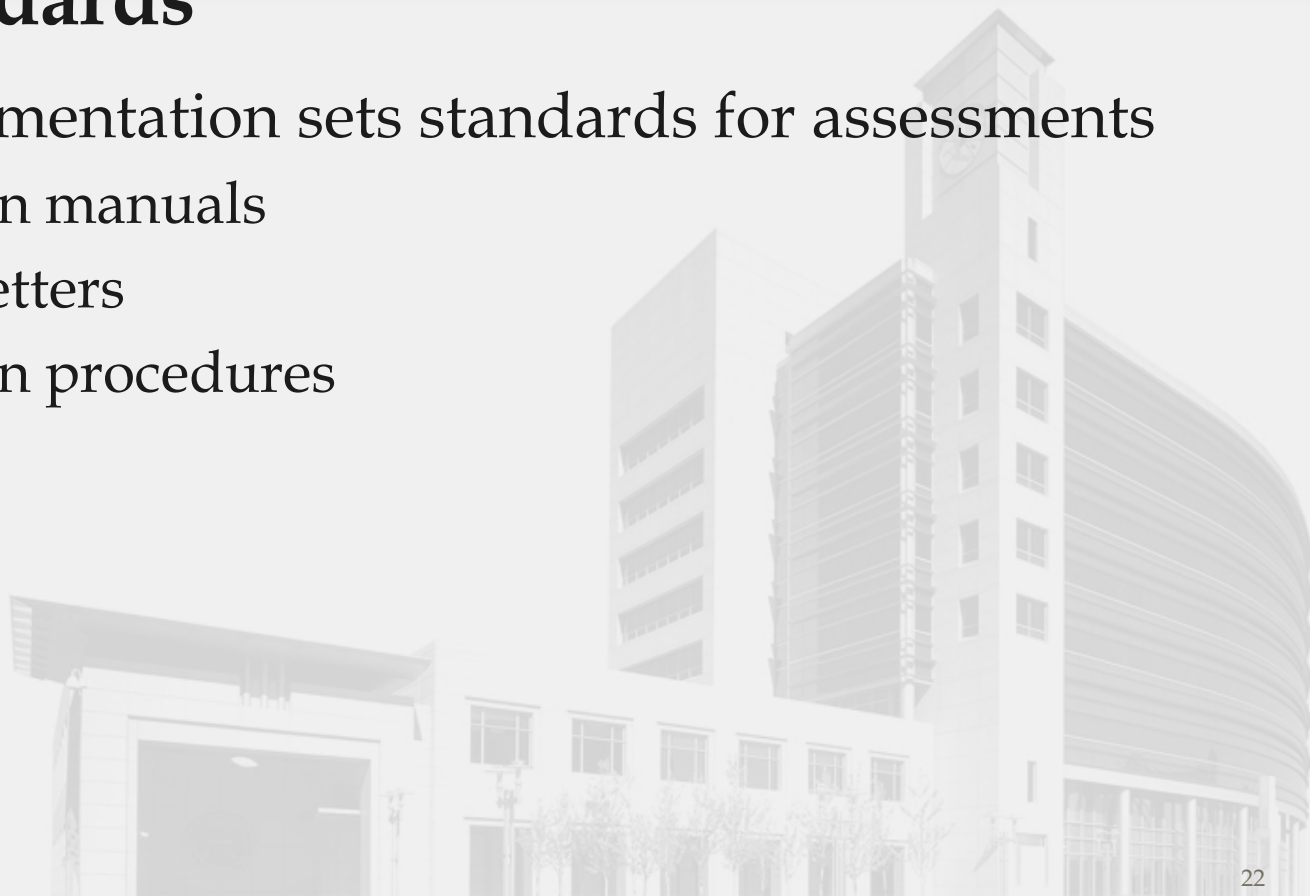
# Robust Training

- Examiners complete extensive training program to become “commissioned”
  - Formal classroom training
  - On-the-job training
- Experienced examiners continue to train
  - Life-long learning



# Setting Standards

- Written documentation sets standards for assessments
  - Examination manuals
  - Guidance letters
  - Examination procedures





# Review of Assessments: Federal Reserve Approach

- FRB-Minneapolis separates the exam function from the ongoing supervision function
- Internal vettings and examination report review
- Document initial assessment to final assessment
  - All changes are documented



# Review of Assessments: Federal Reserve Approach

- Routine review of assessments by BOG supervisory staff
  - Ongoing review
  - Select, more extensive reviews
- Large bank assessments reviewed across firms







# Address Conflicts of Interest

- Restrictions on supervisory employees include but are not limited to:
  - Investments
  - Acceptance of gifts
  - Obtaining loans
  - Seeking employment

