



# Supervision and Regulation Report

November 2018





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# Preface

The Board of Governors of the Federal Reserve System is pleased to present the inaugural *Supervision and Regulation Report*.<sup>1</sup> The report summarizes banking conditions and the Federal Reserve’s supervisory and regulatory activities, in conjunction with semiannual testimony before Congress by the Vice Chairman for Supervision. While this inaugural report looks at trends going back to the financial crisis, future reports will focus primarily on developments in the period since the previous report. All financial and table data presented in this report are as of June 30, 2018, unless specified otherwise.

The report does not reflect the full extent of tailoring of regulations and supervision—required by the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA)—which is in varying stages of implementation. Supervisory portfolios are described in their pre-EGRRCPA form. Changes to regulatory thresholds adopted to reflect EGRRCPA are underway and will be reflected in the next report.

In addition, this report focuses on the Federal Reserve’s prudential supervisory responsibilities rather than consumer compliance supervision, which is addressed briefly in the Supervisory Developments section of this report.

This report consists of three main sections, in addition to a [Summary](#) of key developments and trends:

- The [Banking System Conditions](#) section provides an overview of trends in the banking sector based on data collected by the Federal Reserve and other federal financial regulatory agencies as well as market indicators of industry conditions.
- The [Regulatory Developments](#) section provides an overview of the current areas of focus of the Federal Reserve’s regulatory policy framework, including pending rules.
- The [Supervisory Developments](#) section provides background information on supervisory programs and approaches, as well as an overview of key themes and trends, supervisory findings, and supervisory priorities. The report distinguishes between large financial institutions and regional and community banking organizations because supervisory approaches and priorities for these institutions frequently differ.

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<sup>1</sup> For more information about the Federal Reserve’s supervisory and regulatory responsibilities and activities, see section 4, “Supervision and Regulation,” of the Federal Reserve Board’s *104th Annual Report 2017* at [www.federalreserve.gov/publications/annual-report.htm](http://www.federalreserve.gov/publications/annual-report.htm). In addition, the *Federal Reserve System Purposes & Functions* publication provides an overview of these responsibilities and activities and clarifies the distinction between supervision and regulation: “Regulation and supervision are distinct, but complementary, activities. Regulation entails establishing the rules within which financial institutions must operate—in other words, issuing specific regulations and guidelines governing the formation, operations, activities, and acquisitions of financial institutions. Once the rules and regulations are established, supervision—which involves monitoring, inspecting, and examining financial institutions—seeks to ensure that an institution complies with those rules and regulations, and that it operates in a safe and sound manner.” See [www.federalreserve.gov/aboutthefed/pf.htm](http://www.federalreserve.gov/aboutthefed/pf.htm).

For summary information regarding the Federal Reserve’s review of banking applications activity, please see the *Semiannual Report on Banking Applications Activity* at [www.federalreserve.gov/publications/semiannual-report-on-banking-applications-activity.htm](http://www.federalreserve.gov/publications/semiannual-report-on-banking-applications-activity.htm).



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# Summary

Regulatory policies implemented over the past decade have contributed significantly to improving the safety and soundness of banking organizations and the financial system so they are able to support the needs of the economy through good times and bad. Today, U.S. banking firms are significantly better capitalized and have much stronger liquidity positions. They rely less on short-term wholesale funding, which can evaporate quickly during periods of stress. The largest banking firms have also developed resolution plans that reduce the potential negative systemic impact that could result in the event of their failures.

As the regulatory framework has been strengthened, the Federal Reserve has also focused on the efficiency of financial institution supervision. Compliance burden should be minimized without compromising the safety and soundness gains that have been made in recent years. In addition, the Federal Reserve continues to tailor its regulations, ensuring that the rules vary with the risk of the institution.

*In an effort to refine the post-crisis supervisory and regulatory framework, the Board promotes the principles of efficiency, transparency, and simplicity.*

**Efficiency** involves developing and implementing regulations and supervision programs that tailor requirements and intensity appropriately based on the size and complexity of institutions. In addition, the Federal Reserve aims to minimize compliance burden while achieving regulatory and financial stability objectives.<sup>2</sup>

**Transparency** is not only a core requirement for accountability to the public, but also benefits the regulatory process by exposing ideas to a variety of perspectives. Similarly, transparent supervisory principles and guidance allow firms and the public to understand the basis on which supervisory decisions are made and allow firms the ability to respond constructively to supervisors.

**Simplicity** complements and reinforces transparency by promoting the public's understanding of the Board's regulatory and supervisory programs. Confusion and unnecessary compliance burden resulting from overly complex regulation do not advance the goal of a safe financial system.

*Since the crisis, the Federal Reserve has substantially strengthened its supervisory programs for the largest institutions.*

The financial crisis made clear that policymakers needed to address more substantially the threat to financial stability posed by the largest and most complex banking organizations, in particular those considered systemically important. As a result, the Federal Reserve has strategically shifted supervisory resources to its large bank supervision programs. For the largest, most systemically important financial institutions, the Large Institution Supervision Coordinating Committee (LISCC) was established in 2010 to oversee a national program for these

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<sup>2</sup> As discussed in Box 9, "State Member Bank and Consolidated Supervision," the Federal Reserve's bank holding company supervision program also involves reliance on—and extensive coordination with—the insured depository primary regulator in order to reduce burden and duplicative efforts, thereby promoting efficiency.

firms.<sup>3</sup> An increased number of horizontal examinations were introduced, focusing on capital, liquidity, governance and controls, and resolution planning.<sup>4</sup> In addition, financial and management information collections from large institutions increased, giving supervisors more timely and better insight into firms' risk profiles and activities.

*The Federal Reserve also enhanced its supervision programs for smaller institutions to address lessons learned during the crisis...*

During the financial crisis of 2007–09, a large number of regional and community banks failed or experienced financial stress. Accordingly, the Federal Reserve took steps to improve its regional and community bank supervision programs to enhance expectations for examinations, particularly for those conducted at banks with significant concentrations of credit risk in particular loan segments or that relied significantly on less-stable funding sources.

*...and has more recently focused on tailoring its supervisory expectations to minimize regulatory burden whenever possible without compromising safety and soundness.*

As banking conditions have improved and regulators have gained more experience implementing the post-crisis regulatory regime, the Federal Reserve, along with other regulatory agencies, has recalibrated supervisory programs to ensure they are effectively and efficiently achieving their goals. As a result, the agencies have implemented several burden-reducing supervisory changes, including

- reducing the volume of financial data that smaller, less-risky banks must submit to the agencies each quarter,
- increasing the loan size under which regulations require banks to obtain formal real estate appraisals for commercial loans, and
- proposing changes to simplify regulatory capital rules.

In addition, the Federal Reserve has taken steps to reduce the amount of undue burden associated with examinations, including conducting portions of examinations offsite. There has also been an increased emphasis on risk-focusing examination activities, where more in-depth examinations are conducted for banks identified as high risk or in areas with high-risk activities, and less-intensive examinations are conducted at lower-risk banks, or in lines of businesses at banks that have historically been lower in risk.

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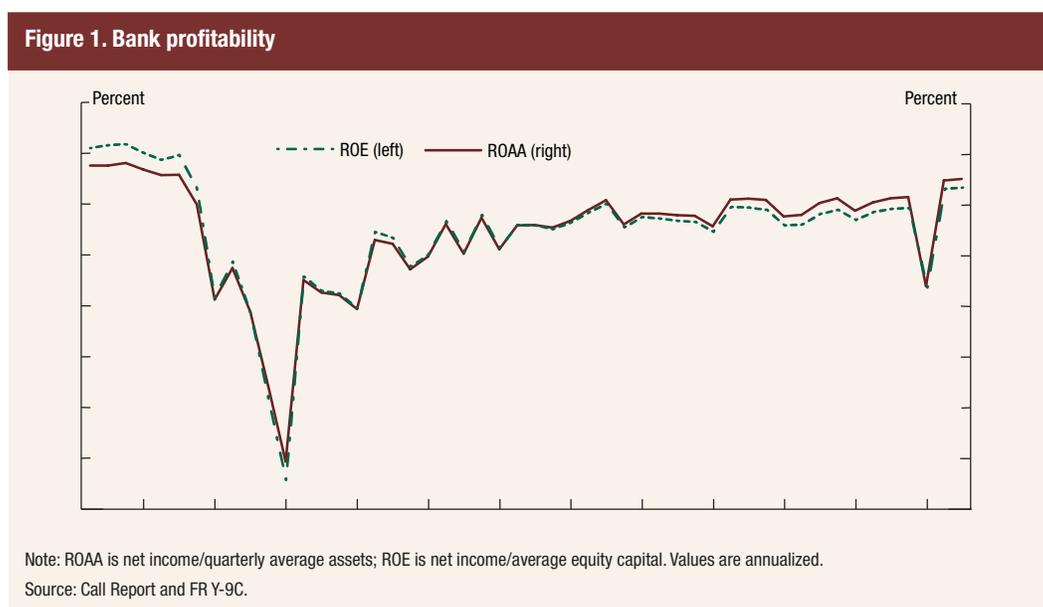
<sup>3</sup> See also Supervision and Regulation (SR) letter 15-7, "Governance Structure of the Large Institution Supervision Coordinating Committee (LISCC) Supervisory Program," at [www.federalreserve.gov/supervisionreg/srletters/sr1507.htm](http://www.federalreserve.gov/supervisionreg/srletters/sr1507.htm).

<sup>4</sup> Horizontal examinations are exercises in which several institutions are examined simultaneously. Doing so encompasses both firm-specific supervision and the development of broader perspectives across firms.

# Banking System Conditions

*The financial condition of the U.S. banking system is generally strong.*

The strong economy has contributed to improvements in the financial condition of banks. Two important measures of profitability—return on equity (ROE) and return on average assets (ROAA)—have seen steady gains over the past several years and attained a 10-year high in the second quarter of 2018 (figure 1).<sup>5</sup> Earnings for firms of all sizes have been bolstered by rising net interest income. Moderately rising interest rates have been positive for bank earnings and have helped drive increases in net interest income.



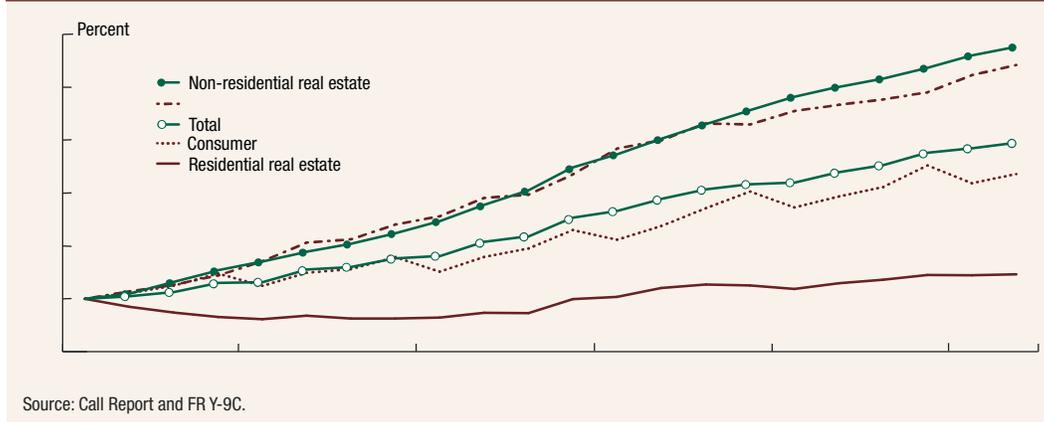
*Firms have reported growth in loan volume coupled with lower nonperforming loan ratios.*

Loan growth remains robust, with total loan volume for the industry growing over 30 percent since 2013 (figure 2). Commercial and industrial (C&I) loans and non-residential real estate loans have experienced the strongest growth. Since 2013, the volume of C&I and non-residential real estate loans has grown by over 40 percent. Residential real estate lending, which continued to experience structural changes over this period, exhibited tepid growth.

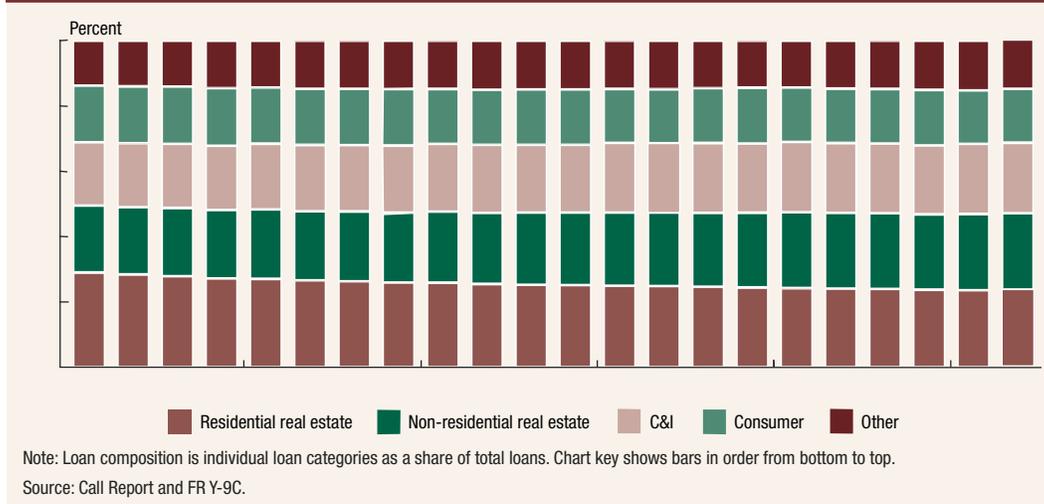
Recently, nonbank finance companies are increasing their market share in new mortgage originations, and large banks are shifting their mortgage exposures from loans to securities. As a result, the banking industry's overall loan portfolio is shifting away from residential real estate loans toward C&I loans (figure 3).

<sup>5</sup> The dip in ROE and ROAA in 2017 was driven by a one-time tax effect.

**Figure 2. Loan growth by sector**



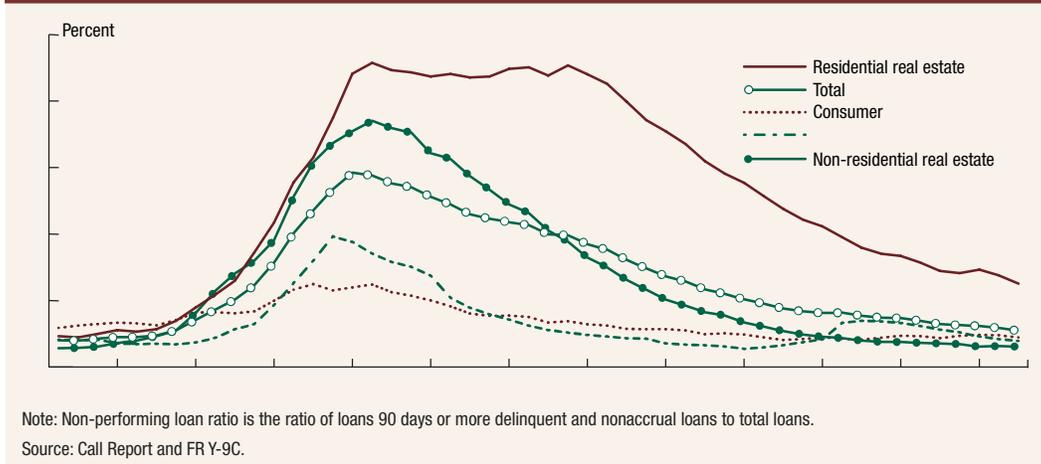
**Figure 3. Loan composition**



The nonperforming loan ratio—one measure of asset quality—is generally improving or stable across the banking system (figure 4). Currently, nonperforming loans as a share of total loans and leases are at or near a 10-year low. However, nonperforming C&I loans increased in 2016 because of a slowdown in the oil and gas industry.

Firms maintain reserves to provide a cushion against losses on loans and leases they are unable to collect. One important financial metric is the ratio of allowance for loan and lease losses (ALLL, which is the amount of reserves banks set aside to absorb losses related to troubled loans) to the volume of nonperforming loans and leases held by a bank, also known as the reserve coverage ratio (figure 5). A higher ratio generally indicates a better ability to absorb future loan losses.

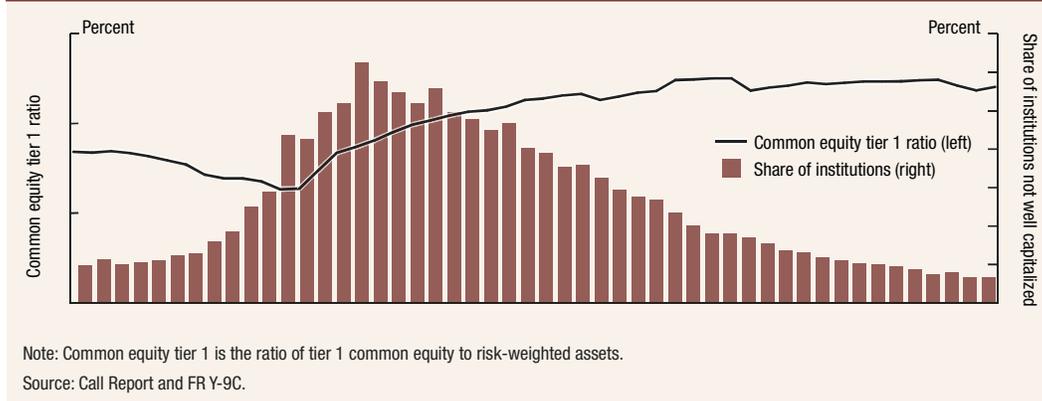
Since 2013, as the volume of nonperforming loans has declined, the industrywide coverage ratio has improved considerably. While the entire industry has seen an improvement in this

**Figure 4. Non-performing loan ratio****Figure 5. Reserve coverage ratio**

ratio, the largest firms have seen the greatest improvement. It is important to note that non-performing loan status is a lagging indicator of loan losses and other factors are considered when estimating the allowance, such as changes in underwriting standards and changes in local or regional economic conditions.

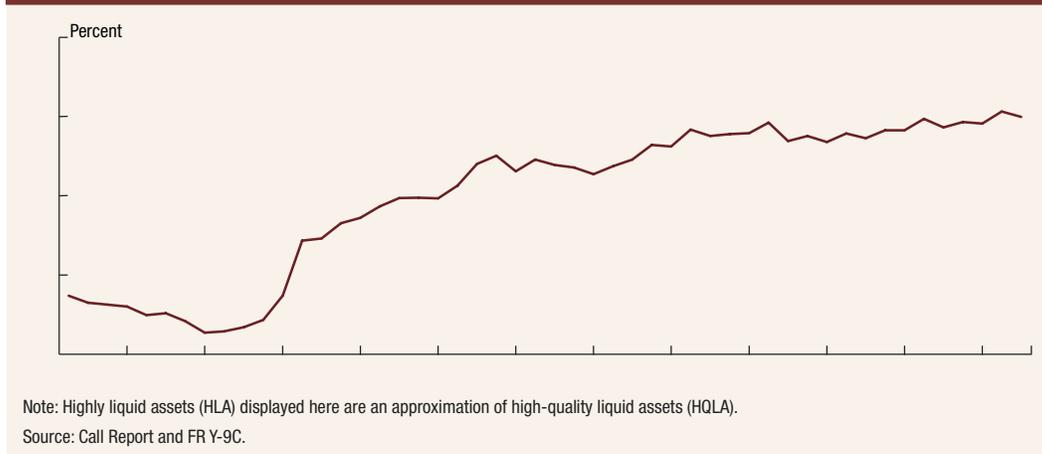
*As profitability and asset quality continue to improve, firms still maintain high levels of quality capital.*

Capital provides a buffer to absorb losses that may result from unexpected operational, credit, or market events. Since the financial crisis, the Federal Reserve has implemented new rules that have significantly raised the requirements for the quantity and quality of bank capital, particularly at the largest firms. As a result of the new requirements, capital levels have increased across the industry (figure 6).

**Figure 6. Common equity tier 1 ratio/share of institutions not well capitalized**

*Firms have also significantly bolstered their liquidity after coming under funding pressure during the financial crisis.*

The funding stresses faced by large banks during the financial crisis heavily influenced the subsequent U.S. regulatory framework for addressing funding and liquidity risk. The financial crisis demonstrated the need to ensure that banks hold enough fundamentally sound and reliable liquid assets to survive a stress scenario. Liquidity requirements put in place since the crisis have significantly increased aggregate levels of highly liquid assets (figure 7).

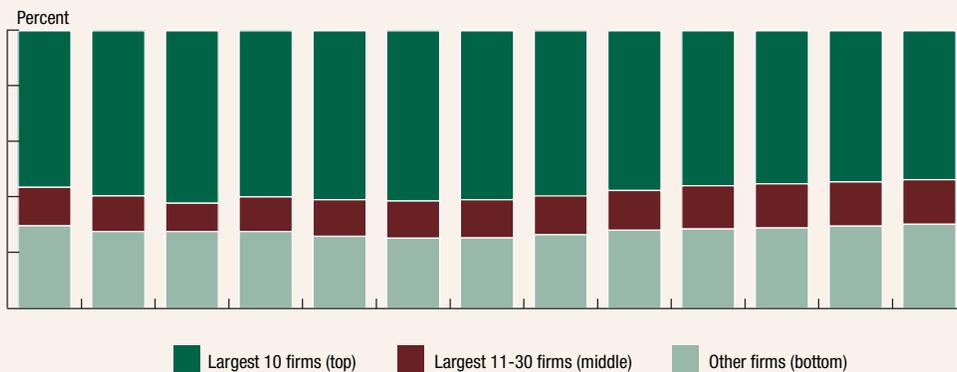
**Figure 7. Highly liquid assets as share of total assets**

*The banking industry remains concentrated, while the market share of the largest banking organizations has declined.*

Over the past few decades, as the banking system has grown, there has been a trend of increased bank consolidation. During the height of and immediately after the financial crisis, as the financial system was strained, many banks failed or merged with other institutions. Upon closing, their assets were sold to other, often larger, institutions, and the industry saw a wave of consolidation and growth of the largest institutions. In recent years, however, concentration has slowed by some measures. Even as the total volume of loans and leases has

been growing, the distribution of those loans has spread to a broader section of the industry. The market share of loans for the 10 largest banking organizations has declined (figure 8).

**Figure 8. Concentration of banking industry outstanding loans and leases**



Note: Data prior to 2018 are as of year-end. The 2018 value is as of the end of 2018:Q2.

Source: Call Report and FR Y-9C.

*Market indicators generally reflect stronger industry performance.*

The improvements in overall banking system conditions since the crisis are reflected in market indicators of bank health, such as the market leverage ratio and credit default swap (CDS) spreads. The market leverage ratio is a market-based measure of firm capital, and a higher ratio generally indicates investor confidence in banks' financial strength. Credit default spreads are a measure of market perceptions of bank risk, and a small spread reflects investor confidence in banks' financial health. Both measures are close to pre-crisis levels (figure 9).<sup>6</sup>

**Figure 9. Average credit default swaps (CDS) spread and market leverage ratio**



Note: Market leverage ratio is the ratio of market value of equity to market value of equity plus total liabilities. CDS values are for the eight U.S. LISC firms (Bank of America; Bank of New York Mellon; Citigroup; Goldman Sachs; JPMorgan Chase; Morgan Stanley; State Street; Wells Fargo) and four FBO LISC firms only (Barclays; Credit Suisse; Deutsche Bank; UBS).

Source: Credit default spread—IHS Markit; market leverage—Bloomberg, Factset.

<sup>6</sup> Definitions of market leverage and credit default swap spreads are included in [Appendix A: Data](#).

### Box 1. Institutions Supervised by the Federal Reserve

The Federal Reserve is responsible for the supervision and regulation of bank holding companies (BHCs), savings and loan holding companies (SLHCs), state-chartered banks that are members of the Federal Reserve System (state member banks or SMBs), and the U.S. operations of foreign banking organizations (FBOs). The Federal Reserve tailors regulatory and supervisory strategies to the size and complexity of the institutions that it supervises.

For supervisory purposes, the Federal Reserve categorizes institutions into the groups in [table A](#).

Table A. Summary of organizations supervised by the Federal Reserve			
Portfolio	Definition	Number of institutions	Total assets (\$ trillions)
Large Institution Supervision Coordinating Committee (LISCC)	Eight U.S. global systemically important banks (G-SIBs) and four foreign banking organizations (FBOs) with large and complex U.S. operations	12*	12.0
<i>State member banks (SMBs)</i>	SMBs within LISCC organizations	5	0.5
Large and foreign banking organizations (LFBOs)	Non-LISCC U.S. firms with total assets \$50 billion and greater and non-LISCC FBOs	183	7.5
<i>Large banking organizations (LBOs)</i>	Non-LISCC U.S. firms with total assets \$50 billion and greater	20	3.6
<i>Large FBOs</i>	Non-LISCC FBOs with combined U.S. assets \$50 billion and greater	19	3.1
<i>Small FBOs</i>	FBOs with combined U.S. assets less than \$50 billion	144	0.8
<i>State member banks</i>	SMBs within LFBO organizations	9	1.0
Regional banking organizations (RBOs)**	Total assets between \$10 billion and \$50 billion	78	1.6
<i>State member banks</i>	SMBs within RBO organizations	46	0.5
Community banking organizations (CBOs)	Total assets less than \$10 billion	4,047	2.4
<i>State member banks</i>	SMBs within CBO organizations	742***	0.5
Insurance and commercial savings and loan holding companies (SLHCs)	SLHCs primarily engaged in insurance or commercial activities	11 insurance 4 commercial	1.1

Note: Data are as of June 30, 2018. The table reflects the de-designation for supervision by the Federal Reserve of Prudential Financial, Inc., by the Financial Stability Oversight Council on October 17, 2018.

\* Bank of America; Bank of New York Mellon; Citigroup; Goldman Sachs; JPMorgan Chase; Morgan Stanley; State Street; Wells Fargo; Barclays; Credit Suisse; Deutsche Bank; UBS.

\*\* In July 2018, the Federal Reserve implemented changes to its supervisory portfolio designations that raised the total asset threshold between large and regional banking organizations from \$50 billion to \$100 billion. These changes will be fully reflected in the next iteration of this report.

\*\*\* Includes 673 SMBs with a holding company and 69 without a holding company.

# Regulatory Developments

The Federal Reserve built out a post-crisis regulatory framework based on robust capital and liquidity requirements, a strong stress-testing regime, and improved resolvability of the largest firms. The Federal Reserve is now focused on assessing whether the regulatory framework is working broadly as intended and on opportunities to simplify the framework and minimize compliance burden as appropriate without sacrificing financial stability or safety-and-soundness. The Federal Reserve is continuing to tailor and reduce burden for less-systemic firms and especially community banks.

Table 1 shows proposed and final rules, as well as Federal Reserve and interagency statements, since the beginning of the year.

Table 1. 2018 Federal Reserve or interagency rulemakings/statements (proposed and final)	
Date issued	Rule/guidance
1/4/2018	Federal Reserve requests comments on proposed guidance that would clarify the Board's supervisory expectations related to risk management for large financial institutions. <i>Federal Register</i> (FR) notice: <a href="http://www.gpo.gov/fdsys/pkg/FR-2018-01-11/pdf/2018-00294.pdf">www.gpo.gov/fdsys/pkg/FR-2018-01-11/pdf/2018-00294.pdf</a> .
2/5/2018	Agencies seek comment on proposed technical amendments to the swap margin rule. FR notice: <a href="http://www.gpo.gov/fdsys/pkg/FR-2018-02-21/pdf/2018-02560.pdf">www.gpo.gov/fdsys/pkg/FR-2018-02-21/pdf/2018-02560.pdf</a> .
4/2/2018	Agencies issue final rule to exempt commercial real estate transactions of \$500,000 or less from appraisal requirements. FR notice: <a href="http://www.gpo.gov/fdsys/pkg/FR-2018-04-09/pdf/2018-06960.pdf">www.gpo.gov/fdsys/pkg/FR-2018-04-09/pdf/2018-06960.pdf</a> .
4/10/2018	Federal Reserve seeks comment on proposal to simplify capital rule for large banks while preserving strong capital levels that would maintain their ability to lend under stressful conditions. FR notice: <a href="http://www.gpo.gov/fdsys/pkg/FR-2018-04-25/pdf/2018-08006.pdf">www.gpo.gov/fdsys/pkg/FR-2018-04-25/pdf/2018-08006.pdf</a> .
4/11/2018	Federal Reserve and the OCC propose rule to tailor enhanced supplementary leverage ratio requirements. FR notice: <a href="http://www.gpo.gov/fdsys/pkg/FR-2018-04-19/pdf/2018-08066.pdf">www.gpo.gov/fdsys/pkg/FR-2018-04-19/pdf/2018-08066.pdf</a> .
4/17/2018	Agencies issue proposal to revise regulatory capital rules to address and provide an option to phase in the effects of the new accounting standard for credit losses, known as the "current expected credit loss" or CECL. FR notice: <a href="http://www.gpo.gov/fdsys/pkg/FR-2018-05-14/pdf/2018-08999.pdf">www.gpo.gov/fdsys/pkg/FR-2018-05-14/pdf/2018-08999.pdf</a> .
6/5/2018	Agencies ask for public comment on a proposed rule to simplify and tailor the Volcker rule. FR notice: <a href="http://www.gpo.gov/fdsys/pkg/FR-2018-07-17/pdf/2018-13502.pdf">www.gpo.gov/fdsys/pkg/FR-2018-07-17/pdf/2018-13502.pdf</a> .
6/14/2018	Federal Reserve approves final rule to prevent concentration of risk between large banking organizations and their counterparties from undermining financial stability. FR notice: <a href="http://www.gpo.gov/fdsys/pkg/FR-2018-08-06/pdf/2018-16133.pdf">www.gpo.gov/fdsys/pkg/FR-2018-08-06/pdf/2018-16133.pdf</a> .
7/6/2018	Agencies issue statement regarding the impact of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA). Statement: <a href="http://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20180706a1.pdf">www.federalreserve.gov/newsevents/pressreleases/files/bcreg20180706a1.pdf</a> .
7/6/2018	Federal Reserve issues statement describing how, consistent with EGRRCPA, the Board will no longer subject primarily smaller, less complex banking organizations to certain Board regulations. Statement: <a href="http://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20180706b1.pdf">www.federalreserve.gov/newsevents/pressreleases/files/bcreg20180706b1.pdf</a> .
8/22/2018	Agencies issue interim final rule regarding the treatment of certain municipal securities as high-quality liquid assets, as required by EGRRCPA. FR notice: <a href="http://www.gpo.gov/fdsys/pkg/FR-2018-08-31/pdf/2018-18610.pdf">www.gpo.gov/fdsys/pkg/FR-2018-08-31/pdf/2018-18610.pdf</a> .

(continued)

**Table 1.—continued**

Date issued	Rule/guidance
8/23/2018	Agencies issue interim final rule expanding examination cycles for qualifying small banks and U.S. branches and agencies of foreign banks, as required by EGRRCPA. FR notice: <a href="http://www.gpo.gov/fdsys/pkg/FR-2018-08-29/pdf/2018-18685.pdf">www.gpo.gov/fdsys/pkg/FR-2018-08-29/pdf/2018-18685.pdf</a> .
8/28/2018	Federal Reserve issues interim final rule expanding the applicability of the Board's Small Bank Holding Company Policy Statement, as required by EGRRCPA. FR notice: <a href="http://www.gpo.gov/fdsys/pkg/FR-2018-08-30/pdf/2018-18756.pdf">www.gpo.gov/fdsys/pkg/FR-2018-08-30/pdf/2018-18756.pdf</a> .
9/11/2018	Agencies issue statement reaffirming the role of supervisory guidance. Statement: <a href="http://www.federalreserve.gov/supervisionreg/srletters/sr1805a1.pdf">www.federalreserve.gov/supervisionreg/srletters/sr1805a1.pdf</a> .
9/18/2018	Agencies issue proposed rule regarding the treatment of high-volatility commercial real estate, as required by EGRRCPA. FR notice: <a href="http://www.gpo.gov/fdsys/pkg/FR-2018-09-28/pdf/2018-20875.pdf">www.gpo.gov/fdsys/pkg/FR-2018-09-28/pdf/2018-20875.pdf</a> .
9/21/2018	Agencies finalize technical amendments to swap margin rule. FR notice: <a href="http://www.gpo.gov/fdsys/pkg/FR-2018-10-10/pdf/2018-22021.pdf">www.gpo.gov/fdsys/pkg/FR-2018-10-10/pdf/2018-22021.pdf</a> .
10/3/2018	Agencies issue statement on banks and credit unions sharing resources to improve efficiency and effectiveness of Bank Secrecy Act compliance. Statement: <a href="http://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181003a1.pdf">www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181003a1.pdf</a> .
10/30/2018	Agencies issue proposed rule to update calculation of derivative contract exposure amounts under regulatory capital rules. FR notice: <a href="http://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181030a1.pdf">www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181030a1.pdf</a> .
10/31/2018	Federal Reserve and agencies issue proposed rules that would more closely tailor the applicability of enhanced prudential standards, as required under EGRRCPA. FR notices: <a href="http://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181031a1.pdf">www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181031a1.pdf</a> and <a href="http://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181031a2.pdf">www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181031a2.pdf</a> .
11/2/2018	Federal Reserve Board finalizes new supervisory rating system for large financial institutions. FR notices: <a href="http://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181102a1.pdf">www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181102a1.pdf</a> and <a href="http://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181102a2.pdf">www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181102a2.pdf</a> .

**Box 2. The Economic Growth, Regulatory Relief, and Consumer Protection Act: Reducing Regulatory Burden**

The Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), enacted on May 24, 2018, changed several aspects of banking law to reduce regulatory burden on community banks and also required the federal banking agencies to further tailor their regulations to better reflect the character of the different banking firms that the agencies supervise.

On July 6, 2018, the Federal Reserve issued a statement explaining how the Board will no longer subject primarily smaller, less complex banking organizations to certain Board regulations, including those relating to stress testing and liquidity. Specifically, this statement explained how the Board would not take action to enforce certain regulations and reporting requirements for firms with less than \$100 billion in total consolidated assets, such as rules implementing enhanced prudential standards and the liquidity coverage ratio requirements.

In August and September 2018, the Federal Reserve and other federal banking agencies issued three interim final rules and one proposal to implement various EGRRCPA provisions. Two of the interim final rules provide significant relief to community banking organizations.

On October 2, 2018, Vice Chairman for Supervision Randal Quarles testified before the Senate Committee on Banking, Housing, and Urban Affairs on the Federal Reserve's implementation of EGRRCPA. In his testimony, Vice Chairman Quarles noted that the Federal Reserve's implementation of EGRRCPA is underway and that progress has already been made to implement some tasks set out for the Federal Reserve in EGRRCPA. Vice Chairman Quarles highlighted that the Federal Reserve's priorities in the next few months will be to tailor regulations for firms with assets over \$100 billion that are not global systemically important banks (G-SIBs) and to develop a community bank leverage ratio.

On October 31, 2018, the Federal Reserve invited public comment on two proposals (one Board-only and one jointly with the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC)) that would establish a framework to further tailor regulations for large banking organizations. The proposals would establish a revised framework for applying prudential standards to large U.S. banking organizations, with four categories of standards that reflect the different risks of firms in each group.

Refer to [table 1](#) for the complete list of rulemakings and links to those documents.



# Supervisory Developments

This section provides an overview of key developments related to the supervision of institutions by the Federal Reserve, including trends and details for all large financial institutions (LISCC firms and large and foreign banking organizations) as well as trends and details regarding regional and community banking organizations.

This report focuses on the Federal Reserve’s prudential supervisory responsibilities. The Federal Reserve is also responsible for timely and effective supervision of consumer protection and community reinvestment laws and regulations. This consumer-focused supervisory work is designed to promote a fair and transparent financial services marketplace and to ensure that the financial institutions under the Federal Reserve’s jurisdiction comply with applicable federal consumer protection laws and regulations. The scope of the Federal Reserve’s supervisory jurisdiction varies based on the particular law or regulation, and on the size of the state member bank.

More information about the Federal Reserve’s consumer-focused supervisory program can be found in the Federal Reserve’s *104th Annual Report 2017*.<sup>7</sup> The Federal Reserve also publishes the *Consumer Compliance Supervision Bulletin*, which shares information about examiners’ supervisory observations and other noteworthy developments related to consumer protection.<sup>8</sup>

## Large Financial Institutions

This section of the report discusses issues and priorities related to the supervision of firms in the LISCC and large and foreign banking organization portfolios.

### *The safety and soundness of large financial institutions continues to improve...*

Large financial institutions are in sound financial condition. Capital levels are strong and much higher than before the financial crisis (figure 10). Recent stress test results show that the capital levels of large firms after a hypothetical severe global recession would remain above regulatory minimums (figure 11).<sup>9</sup> These hypothetical post-stress ratios are higher than the actual capital levels of large banks in the years leading up to the most recent recession as shown from 2006–09 in figure 10. Large financial institutions have substantially increased the percentage of high-quality liquid assets on their balance sheets, which indicates an improved ability to address any emerging liquidity needs (figure 12).

Since the crisis, large financial institutions have addressed and closed out a significant number of supervisory findings (matters requiring attention (MRAs) or matters requiring imme-

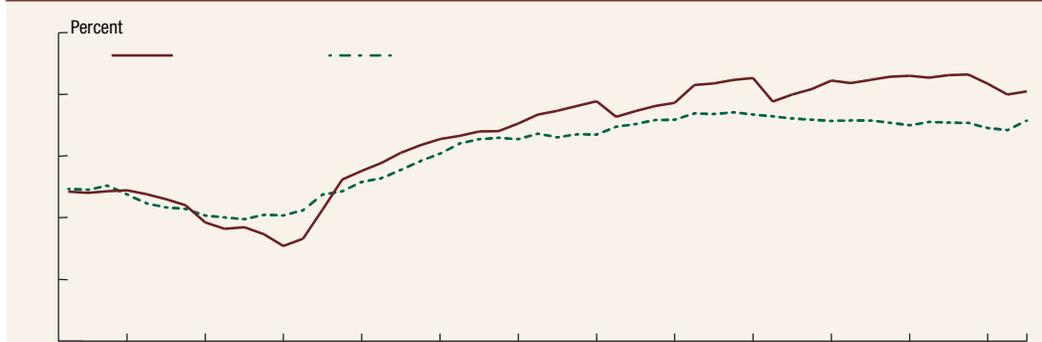
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<sup>7</sup> See *104th Annual Report 2017*, section 5, “Consumer and Community Affairs,” at [www.federalreserve.gov/publications/annual-report.htm](http://www.federalreserve.gov/publications/annual-report.htm).

<sup>8</sup> See *The Consumer Compliance Supervision Bulletin* at [www.federalreserve.gov/publications/consumer-compliance-supervision-bulletin.htm](http://www.federalreserve.gov/publications/consumer-compliance-supervision-bulletin.htm).

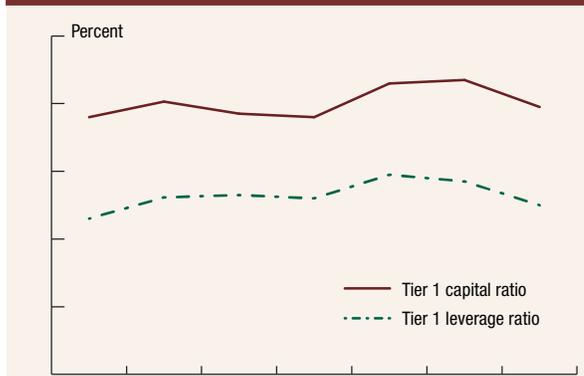
<sup>9</sup> As referenced here, the required minimum post-stress ratios for the tier 1 capital and tier 1 leverage ratio are 6.0 percent and 4.0 percent, respectively. See also the Federal Reserve’s *Comprehensive Capital Analysis and Review 2018: Assessment Framework and Results* report at [www.federalreserve.gov/publications/files/2018-ccar-assessment-framework-results-20180628.pdf](http://www.federalreserve.gov/publications/files/2018-ccar-assessment-framework-results-20180628.pdf).

**Figure 10. Large financial institution common equity tier 1 ratio**



Note: Common equity tier 1 is the ratio of tier 1 common equity to risk-weighted assets.  
Source: Call Report and FR Y-9C.

**Figure 11. CCAR post-stress capital ratios**



Note: Results of annual supervisory stress test (2012–18). Federal Reserve estimates of capital ratios in the severely adverse scenario. Regulatory minimum tier 1 capital ratio is 6.0 percent. Regulatory minimum tier 1 leverage ratio is 4.0 percent.  
Source: Internal Federal Reserve supervisory databases.

diate attention (MRIAs)).<sup>10</sup> (See Box 3, “What Are RFI Ratings and MRAs” for more information on MRAs and MRIAs.) As a result, the number of outstanding supervisory findings have generally decreased (figure 13). However, MRAs and MRIAs have actually increased for large foreign banking operations (FBOs), reflecting changes in regulation that required substantive changes to their U.S. structures.

*... but material risk-management weaknesses persist at a number of firms.*

While most firms have improved in key areas of supervisory focus, such as capital planning and liquidity management, some firms continue to work to

meet supervisory expectations in certain risk-management areas, which is reflected in aggregate bank holding company supervisory ratings for large financial institutions (figure 14).

Firms with less-than-satisfactory ratings generally exhibit weaknesses in one or more areas such as compliance, internal controls, model risk management, operational risk management, and/or data and information technology (IT) infrastructure. Some firms continue to exhibit weaknesses in Bank Secrecy Act (BSA) and anti-money-laundering (AML) programs. These risk-management areas sometimes have longer remediation timelines.

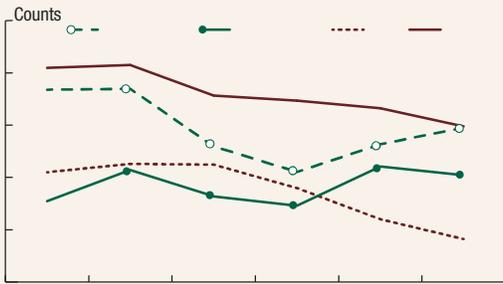
<sup>10</sup> For more information about MRAs and MRIAs, see SR letter 13-13, “Supervisory Considerations for the Communication of Supervisory Findings,” at [www.federalreserve.gov/supervisionreg/srletters/sr1313a1.pdf](http://www.federalreserve.gov/supervisionreg/srletters/sr1313a1.pdf).

Figure 12. Large financial institution high-quality liquid assets



Note: High-quality liquidity assets (HQLA) are estimated by adding excess reserves to an estimate of securities that qualify for HQLA.  
Source: FR Y-9C, FR 2900, Federal Reserve accounting system.

Figure 13. Outstanding supervisory findings, large firms and FBOs

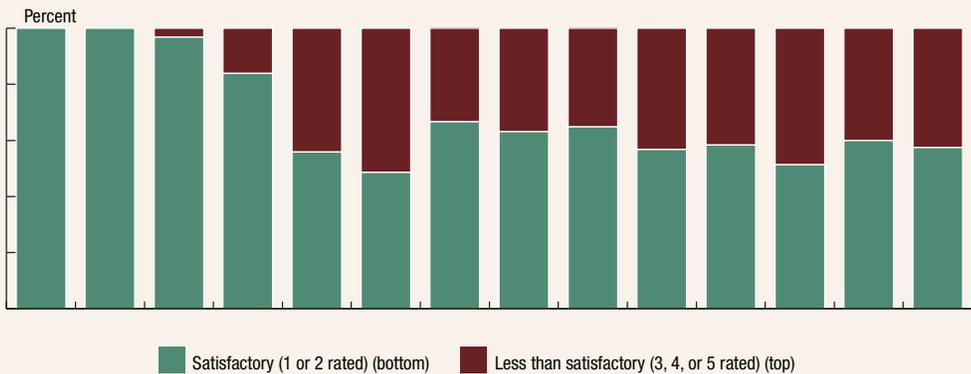


Note: Values prior to 2018 are as of year-end. The 2018 value is as of the end of 2018:Q2.  
Source: Internal Federal Reserve supervisory databases.

*For larger firms, supervisors will continue to conduct horizontal examinations across multiple firms.*

To improve consistency and efficiency, supervisors have increased, and will continue to increase, focus on horizontal supervisory examinations within portfolios. In addition, across all programs, supervisors will also spend time reviewing emerging risks, as well as actions firms have taken to address safety-and-soundness weaknesses previously identified.

Figure 14. Holding company ratings for firms > \$50 billion



Source: Internal Federal Reserve supervisory databases.

**Box 3. What Are RFI Ratings and MRAs?**

Examiners summarize inspection results in written reports to the senior management and board of directors of supervised holding companies. These reports describe conclusions on all factors addressed during the inspection process, including the adequacy of risk management and governance over the banking organization's activities, the consolidated financial condition of the company, and the potential adverse impact of parent and nonbanking activities on the organization.

Within these reports, examiners assign supervisory ratings using the Federal Reserve's RFI rating system, which is named for the individual components of the rating system: risk management (R), financial condition (F), and impact of parent and nonbanking activities (I).<sup>1</sup> Examiners assign ratings both overall in a composite form and to specific aspects of a company's performance on a five-point scale, with ratings of 1 and 2, for example, signifying "strong" or "satisfactory" assessments. A composite rating of 3 reflects "fair" status and indicates the company is vulnerable and requires more than normal supervisory attention and financial surveillance, but there is only a remote threat to its continued viability. Composite ratings of 4 and 5 reflect "marginal" or "unsatisfactory" conditions and are assigned to companies when the organization's future viability could be impaired unless prompt action is taken or the BHC's continued viability is in serious doubt. Ratings of 3, 4, or 5 are considered less-than-satisfactory. Examiners assign component and subcomponent ratings following similar rating conventions.<sup>2</sup> Individual company ratings are confidential supervisory information and cannot be disclosed publicly.

In many cases, holding company inspection reports will include recommendations for follow-up action on the part of the organization's management. Examiners refer to these recommendations as "matters requiring attention," or MRAs. MRAs call for action to address weaknesses in processes or controls that could lead to deterioration in a banking organization's soundness; may result in harm to consumers; or that have caused, or could lead to, noncompliance with laws and regulations. When weaknesses are acute or protracted, Federal Reserve examiners may recommend that management take action more quickly by issuing a "matter requiring immediate attention," or MRIA.

A high volume of MRAs may prompt an examiner to assign a less-than-satisfactory RFI composite rating to a holding company, but the existence of MRAs is not in and of itself an indication that a banking organization is troubled. MRAs may be issued regardless of a company's RFI rating and are not uncommon for companies deemed strong or satisfactory overall.

In the event that holding companies do not address MRAs in a timely or complete manner, examiners may determine that the related weaknesses represent a significant threat to the safety and soundness of the company or its ability to operate in compliance with law and may recommend further action. For example, the Federal Reserve could issue a formal enforcement action with a company. Formal enforcement actions derive from, and carry the full weight and enforceability of, law.

*continued on next page*

### Box 3. What Are RFI Ratings and MRAs?—*continued*

<sup>1</sup> See SR letter 04-18, “Bank Holding Company Rating System,” at <https://fedweb.frb.gov/fedweb/bsr/srltrs/SR0418.htm>. There is separate rating system for banks that is discussed in Box 9, “State Member Bank and Consolidated Supervision.”

<sup>2</sup> On November 2, 2018, the Federal Reserve Board adopted a new rating system for large financial institutions (LFIs) that will replace the RFI rating system for those firms. See [www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181102a1.pdf](http://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20181102a1.pdf). The Federal Reserve will assign initial LFI ratings to firms in the LISCC portfolio in early 2019 and to other large firms in early 2020. The Federal Reserve will continue to utilize the RFI rating system in assessing U.S. bank holding companies with less than \$100 billion in consolidated assets. In addition, the Federal Reserve adopted a final rule to begin applying the RFI rating system to non-insurance, non-commercial savings and loan holding companies beginning in 2019.

### Box 4. Consolidated Supervision of Large Financial Institutions

Following the financial crisis, the Federal Reserve in 2012 introduced a new framework for the consolidated supervision of large financial institutions.<sup>1</sup> The framework applies to LISCC firms, large banking organizations, and large FBOs and consists of two primary objectives:

1. Enhance the resiliency of a firm to lower the probability of its failure or inability to continue to be able to lend to households and businesses.
2. Reduce the impact on the financial system and the broader economy in the event of a firm’s failure or material weakness.

To achieve these objectives, the supervisory efforts are organized to focus on four specific components:

**Capital:** Assess the strength of firms’ capital, or ability to absorb losses, under stressed conditions and how firms measure and use that capital on a forward-looking basis; evaluate how firms manage and control financial risks that could lead to capital reduction through losses.

**Liquidity:** Assess the adequacy of firms’ funding and liquid assets and evaluate how firms manage risks associated with their funding and liquid assets, including under stress scenarios.

**Governance and controls:** Determine the adequacy of firms’ practices through assessments of the effectiveness of the boards of directors’ oversight of operations and risk management, the strength of risk-management practices in business lines, and the adequacy of the independent risk-management and the internal audit functions. Also, evaluate how well controls enable appropriate risk-management practices at a firm.

**Recovery and resolution planning (recovery planning generally applies to certain covered firms only):** Promote the resiliency of covered firms by advancing their recovery preparedness and planning and minimize the impact that distress or failure of a systemically important firm may impose on the broader financial system by furthering firms’ resolvability.

<sup>1</sup> See SR letter 12-17, “Consolidated Supervision Framework for Large Financial Institutions,” at [www.federalreserve.gov/supervisionreg/srletters/sr1217.htm](http://www.federalreserve.gov/supervisionreg/srletters/sr1217.htm).

### Box 5. Upcoming LISCC Supervisory Priorities

#### Capital

- Capital planning
- Regulatory reporting
- Counterparty risk
- Collateral management
- Wholesale credit underwriting

#### Liquidity

- Internal liquidity stress test assumptions
- Liquidity position
- Governance over liquidity data, contingency funding plans, and currency risk management
- Compliance with liquidity regulation

#### Governance and controls

- Information technology and cyber-related risks
- Internal audit
- Compliance and business conduct
- Vendor risk management
- Risk committee practices

#### Recovery and resolution planning

- Recovery planning
- LISCC foreign bank intermediate holding company resolution plans

### Supervision of LISCC Firms

*In general, LISCC firms are improving in key areas of supervisory focus.*

The overall safety and soundness of LISCC firms has improved in recent years. LISCC firms meet regulatory capital requirements and have materially enhanced capital planning practices.<sup>11</sup> LISCC firms also generally have adequate liquid assets and funding structures. In addition, liquidity risk-management practices, including internal liquidity stress testing, have improved as has the quality of liquidity data.

LISCC firms also have improved governance practices and have strengthened aspects of how they manage compliance with internal and regulatory requirements and other operational risks. U.S. LISCC firms improved their ability to mitigate the adverse effects of a potential failure and unwinding of their operations. They have modified internal corporate structures, reviewed and positioned resources that would be needed

to facilitate an orderly resolution, and improved internal shared services arrangements to support operational continuity in the event of resolution. In addition, LISCC firms have developed recovery plans and options to better prepare for severe stress.

<sup>11</sup> In the 2018 Comprehensive Capital Analysis and Review (CCAR) exercise, the Federal Reserve did not object to any firm's capital plan based on quantitative grounds. However, the Board of Governors did object to the capital plan of DB USA Corporation based upon qualitative grounds. The Federal Reserve also issued a conditional non-objection to the capital plans of State Street Corporation, The Goldman Sachs Group, Inc., and Morgan Stanley based on quantitative grounds. See the Federal Reserve 2018 CCAR press release at [www.federalreserve.gov/newsevents/pressreleases/bcreg20180628a.htm](http://www.federalreserve.gov/newsevents/pressreleases/bcreg20180628a.htm).

*The number of supervisory findings issued to LISCC firms, as well as the number of outstanding issues, has declined over the past five years.*

The number of supervisory findings issued per year has steadily declined,<sup>12</sup> with about 45 percent fewer supervisory findings issued in 2017 as compared with 2013.<sup>13</sup> The average number of supervisory findings issued per firm per year declined from about 42 per firm in 2013 to about 23 in 2017. Since 2013, as firms implemented and sustained improvements in governance, risk management, and controls, more supervisory findings were closed than were issued, resulting in an overall 22 percent reduction in outstanding issues.

*However, some weaknesses persist, particularly related to governance and controls.*

Over half of the supervisory findings issued in the past five years were related to governance and risk-management control issues, while about 28 percent were for capital-related issues and about 10 percent related to liquidity. Moreover, of the supervisory findings currently outstanding, nearly 60 percent relate to issues in governance and controls, including weaknesses in BSA/AML programs, internal audit functions, IT risk management (including cybersecurity), and model risk management (figure 15). There are also a number of outstanding supervisory findings related to how firms gather, validate, and report data for regulatory purposes.

Over the past several years, supervisory work has revealed continued weaknesses in LISCC firms' management of compliance and employee conduct risks as well as certain operational activities, including IT and the production and management of data. Some of these issues are reflected in public enforcement actions currently outstanding against LISCC firms.<sup>14</sup>

### **Box 6. Supervisory Issues at Wells Fargo**

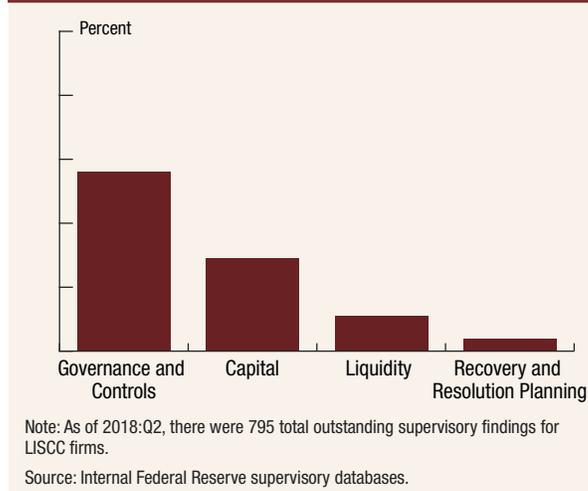
On February 2, 2018, the Federal Reserve entered into a consent order with Wells Fargo & Company that restricts the firm's growth until it implements a remediation plan that sufficiently addresses weaknesses in governance and certain areas of its risk management and internal controls. This penalty is in response to weaknesses in compliance risk management that led to widespread consumer abuses and other compliance breakdowns by the firm. The consent order requires the firm to engage a third party to review implementation of the remediation plan. The growth restriction will stay in place until both the implementation and third-party review are carried out to the satisfaction of the Federal Reserve. The Federal Reserve Board will vote on any decision to terminate the asset growth restriction on the firm.

<sup>12</sup> Note that supervisory findings related to resolution plans are not classified as MRAs or MRAs. Shortcomings and deficiencies found in firm specific resolution plans can be located at [www.federalreserve.gov/supervisionreg/resolution-plans.htm](http://www.federalreserve.gov/supervisionreg/resolution-plans.htm).

<sup>13</sup> It should be noted that supervisory findings issued over multiple years will vary in approach and granularity as supervisory practices and policy evolve, which has an effect on the number of recommendations issued. However, the general trend in the issuance of supervisory findings indicates improved risk management at LISCC firms.

<sup>14</sup> Some of the outstanding enforcement actions were issued around the same time to multiple firms because of significant issues that emerged across firms, such as seven enforcement actions related to foreign exchange market abuses and related conduct issues, and several enforcement actions to address BSA/AML weaknesses.

Formal enforcement actions against entities supervised by the Federal Reserve are available on the Federal Reserve Board's website at [www.federalreserve.gov/apps/enforcementactions/search.aspx](http://www.federalreserve.gov/apps/enforcementactions/search.aspx).

**Figure 15. Outstanding supervisory findings by category, LISCC firms**

Outside of governance and controls, additional areas still require improvement. With regard to capital, outstanding supervisory issues relate to methods for developing assumptions used in internal stress tests and internal governance of capital models, as well as some areas of credit risk management. Some firms have also been asked to make additional improvements in liquidity risk management to fully meet supervisory expectations. With regard to resolution planning, certain weaknesses were highlighted by the Federal Reserve in 2017, including the feasibility of selling off business units under stress, complexity in derivatives portfolios, and issues around legal entity structures.<sup>15</sup>

In 2018 and 2019, supervisors will continue to focus on horizontal supervisory examinations within the LISCC portfolio, including in some of the areas listed in [box 5](#). In addition, supervisors will also review emerging risks as well as actions firms have taken to address safety-and-soundness weaknesses previously identified (including those related to existing supervisory findings and outstanding public enforcement actions).

## Supervision of Large and Foreign Banking Organizations

*The safety and soundness of large and foreign banking organizations is stable.*

Large and foreign banking organizations generally meet supervisory expectations for capital and liquidity. Most firms continue to strengthen their capital planning processes and have mature revenue and loss estimation approaches that result in credible loss estimates. In particular, most firms have integrated their stress-testing programs with their ongoing decision-making processes, improved their data and modeling capabilities, and established robust governance practices. However, improvements are still needed at some firms as weaknesses have been identified in capturing higher-risk loans in loss projections and gaps have been identified in firms' own internal reviews of their capital planning processes.

On balance, most firms in the large and foreign banking operations (LFBOs) portfolio have established liquidity risk limit frameworks that reflect firms' risk profiles and appropriate governance processes. While firms have an independent review function in place, the role of the function continues to develop across firms. Deficiencies noted include weaknesses in some firms' liquidity risk identification processes and a lack of robust internal risk functions.

<sup>15</sup> For more information about resolution plans, see the Federal Reserve Board's website at [www.federalreserve.gov/supervisionreg/resolution-plans.htm](http://www.federalreserve.gov/supervisionreg/resolution-plans.htm).

**Box 7. What Are Governance and Controls?**

Governance and controls are essential elements of ensuring a firm operates in a safe and sound manner. The term includes several broad activities, such as

- oversight by the board of directors,
- execution by senior management of the board’s strategy,
- maintenance of effective and independent risk-management and control functions (including internal audit and policies and procedures),
- compliance with laws and regulations, and
- planning for the ongoing resiliency of the firm.

Some specific examples of governance and controls include IT and data infrastructure, cybersecurity, and BSA/AML protections. For large firms, sound governance and controls are especially important, given the increased size, complexity, and scope of operations, as well as challenges that arise from managing such large entities consistently across their various business areas.

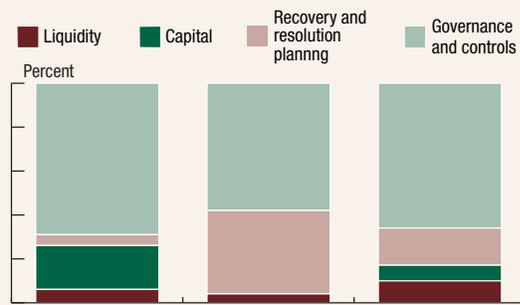
*Nonfinancial risks are the most significant risks in the LFBO portfolio.*

Almost 70 percent of the supervisory findings for LFBO firms are related to governance and controls (figure 16). Areas of concern include compliance control deficiencies evidenced by long-standing BSA/AML issues as well as some associated with IT risk management (including cybersecurity). The majority of public enforcement actions currently open for LFBO firms are related to BSA/AML and the Office of Foreign Assets Control (OFAC) compliance.

*For FBOs, challenges remain regarding compliance with enhanced prudential standards requirements.*

In 2014, the Federal Reserve finalized a rule requiring each FBO with U.S. subsidiary assets greater than \$50 billion to form an intermediate holding company (IHC) to hold subsidiary assets beginning in 2016. IHCs provide the Federal Reserve a framework to apply enhanced prudential standards such as capital and liquidity requirements and to improve FBO supervision. The IHC requirement also provided a mechanism for FBOs to more effectively manage their U.S. operations. The IHC structural requirement is a material change for the supervision and regulation of foreign banks, and while FBOs continue to face challenges in implementing this requirement, the firms

**Figure 16. Outstanding supervisory findings by category, LBO and non-LISCC FBO firms**



Note: As of 2018:Q2, total supervisory findings, by portfolio, were: LBO–397; FBO > \$50B–652; FBO < \$50B–714. Chart key shows bars in order from bottom to top.

Source: Internal Federal Reserve supervisory databases.

### Box 8. Upcoming LFBO Supervisory Priorities

#### Capital

- Loss estimation methodologies
- Capital policies and scenario design

#### Liquidity

- Independent review function and liquidity limits risk management
- Security dealer internal stress testing assumptions

#### Governance and controls

- Cyber-related risks
- Internal audit
- Compliance and business conduct
- BSA/AML and OFAC compliance program control

#### Recovery and resolution planning

- Resolution plans, including IHC resolution plans

have made progress in the approximately two years since the requirement took effect.

FBOs continue to strengthen risk-management and reporting systems of their respective IHCs to meet supervisory expectations. Some FBOs have established multiyear projects to address known deficiencies in their IHCs' risk-management and reporting systems.<sup>16</sup>

*Supervisory findings for FBO branches and agencies are concentrated in compliance risk management and controls.*

FBO branches and agencies often engage in BSA/AML compliance-sensitive businesses such as dollar clearing, foreign correspondent banking, and trade finance. Examiners have

noted that some firms lack sufficiently strong BSA/AML compliance systems. These deficiencies have resulted in public enforcement actions and substantial penalties from bank supervisory and law enforcement agencies.

Upcoming supervisory priorities in 2018 and 2019 will include review and validation of actions by firms to address outstanding supervisory findings. For the LFBO portfolio as a whole, focus will remain on the areas listed in box 8.

## Regional and Community Banking Organizations

*The majority of the firms in the regional and community bank portfolios are in satisfactory condition.*

The financial condition of regional and community banking organizations (RBOs and CBOs, respectively) is generally satisfactory. These institutions have maintained high common equity tier 1 capital levels over the past decade (figure 17). More than 99 percent of banking organizations in this portfolio report capital levels consistent with the “well-capitalized” designation under regulatory capital standards. Although highly liquid assets have been trending down over the past five years for these firms as lending activity has picked up, reliance on wholesale funding remains relatively low.

Supervisory recommendations issued during the financial crisis have largely been addressed and closed (figure 18).

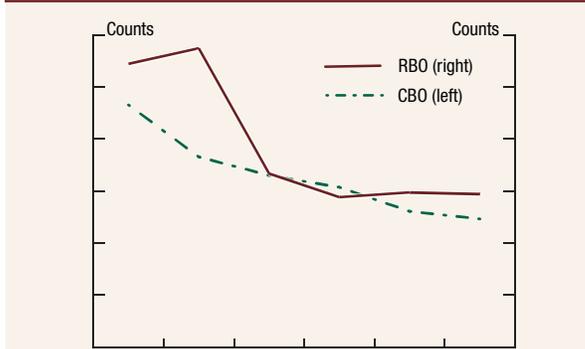
<sup>16</sup> These statements generally also apply to LISCC FBOs.

**Figure 17. Common equity tier 1 ratio for RBO and CBO firms**



Note: Common equity tier 1 is the ratio of tier 1 common equity to risk-weighted assets.  
Source: Call Report and FR Y-9C.

**Figure 18. Outstanding supervisory findings for smaller institutions**



Note: Values prior to 2018 are as of year-end. The 2018 value is as of the end of 2018:Q2.  
Source: Internal Federal Reserve supervisory databases.

Supervision and regulation of these institutions is aimed at tailoring requirements to match the size, risk, and complexity of each institution. As firms in these portfolios grow, merge, or enter into new markets or activities, supervisors pay close attention to ensuring that risk-management processes keep pace with their complexity and risk. The Federal Reserve completes full-scope examination or inspection activities for all CBOs, RBOs, and savings and loan holding companies (SLHCs) within each supervisory cycle. However, the scope of individual supervisory events is tailored to the size, complexity, and unique risk characteristics of each institution. To improve supervisory

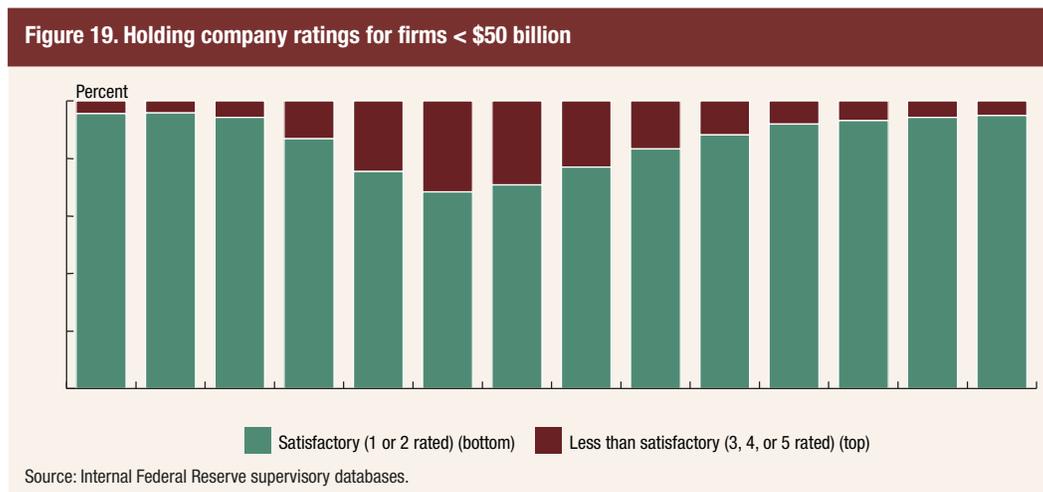
efficiency, Federal Reserve examiners are reducing the amount of time spent onsite at examinations, increasing the risk focus of examinations, and leveraging, where appropriate, supervisory findings from other regulators.

*There are few RBOs or CBOs in less-than-satisfactory condition.*

Supervisory ratings in these portfolios reflect the generally stable condition of the portfolio, with the vast majority of institutions rated satisfactory.<sup>17</sup> Less than 6 percent of all RBO and

<sup>17</sup> Ratings in this context refers to the composite rating of the top-tier holding company, which generally mirrors the composite rating of the subsidiary banking organization(s). See Box 3, “What Are RFI Ratings and MRAs?” See also SR letter 04-18, “Bank Holding Company Rating System,” at [www.federalreserve.gov/boarddocs/srletters/2004/](http://www.federalreserve.gov/boarddocs/srletters/2004/)

CBO holding companies are rated less than satisfactory, reflecting the generally strong condition of their banking subsidiaries (figure 19). The percentage of RBO and CBO companies rated satisfactory has been trending upward since the low in 2010.



## Supervision of Regional Banking Organizations

*The condition of the RBO portfolio has steadily improved and stabilized post-crisis.*

In line with the broader industry, the quality and quantity of capital at RBO firms remain high. Currently, common equity tier 1 ratios for this portfolio are around 12 percent, and all institutions report capital ratios consistent with the “well capitalized” designation under interagency capital guidelines.

Although liquidity risk in this portfolio is considered low or moderate, examiners have observed some deterioration in RBO liquidity positions. As a result of loan growth outstripping growth in core deposits, some banking organizations have increased their reliance on riskier noncore funding sources, such as brokered and listing service deposits.

*Risk management and controls at RBOs remain an area of supervisory focus.*

Current risks in the portfolio are primarily the result of the consolidation of smaller firms into larger regional banks. The total number of holding companies supervised in the regional banking portfolio increased by 40 percent over the past five years, and the number of those companies that have state member lead banks has doubled. There are now 78 institutions supervised in the RBO program, with combined assets of approximately \$1.6 trillion.

sr0418.htm, and SR letter 13-21, “Inspection Frequency and Scope Requirements for Bank Holding Companies and Savings and Loan Holding Companies with Total Consolidated Assets of \$10 Billion or Less,” at [www.federalreserve.gov/supervisionreg/srletters/sr1321.htm](http://www.federalreserve.gov/supervisionreg/srletters/sr1321.htm).

### **Box 9. State Member Bank and Consolidated Supervision**

The Federal Reserve is responsible for the supervision and regulation of state-chartered banks that are members of the Federal Reserve System (known as state member banks or SMBs). By statute, the Federal Reserve, or chartering state banking department, must perform an onsite, full-scope examination of each SMB at least once every 12 or 18 months.

Results from the onsite examination are reported to the board of directors and management of the bank in a report of examination, which includes an assessment and ratings of the bank's capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk under the Uniform Interagency Financial Institution Rating System, also known as the CAMELS ratings system.<sup>1</sup>

#### **Consolidated Supervision of Community and Regional Holding Companies**

Consolidated supervision of the holding company includes an assessment of the organization's structure and condition, including nonbank subsidiaries, activities, and governance. Assessments of the holding company are conveyed through ratings of risk management, financial condition, and the impact of the holding company on the insured depository, under the RFI rating system.

The Federal Reserve's supervision of holding companies is tailored within portfolios based on the size, complexity, and risk profile of each institution. In addition, there is a significant distinction between the Federal Reserve's supervisory programs for those holding companies with SMB subsidiaries versus holding companies with non-SMB depository subsidiaries; for the latter, the Federal Reserve relies extensively on findings of the primary federal and/or state bank regulator.

#### **Reliance on the Primary Regulators**

A long-standing tenet of the Federal Reserve's CBO and RBO holding company supervisory approach is to rely on—and coordinate extensively with—the insured depository primary regulator in order to reduce burden and duplicative efforts. In the CBO portfolio, small, noncomplex holding company supervision is generally completed offsite and draws significantly on the primary regulator's assessment of the subsidiary bank or savings and loan.

Considerable efforts have been taken by the Federal Reserve in recent years to align our supervisory planning schedule with those of the OCC and FDIC to optimize coordination, resulting in a significant decline in the number of examination events led by the Federal Reserve at these companies. The Federal Reserve's Office of Inspector General (OIG) issued a report in June 2018, which concluded that *"In accordance with applicable guidance related to consolidated supervision, we determined that the Federal Reserve Banks relied on the primary federal regulator (PFR) of regional banking organizations' (RBOs) insured depository institutions to supervise the RBOs we sampled."*<sup>2</sup>

*continued on next page*

**Box 9. State Member Bank and Consolidated Supervision—continued**

The Federal Reserve relies to the fullest extent possible on the work of primary functional state Department of Insurance (DOI) regulators as part of the overall supervisory assessment of insurance SLHCs (ISLHCs). The Federal Reserve has worked closely with the DOIs and the National Association of Insurance Commissioners to develop strategies to tailor the supervisory program for ISLHCs and address the complexities associated with insurers, maximize supervisory efficiencies, and avoid duplication.

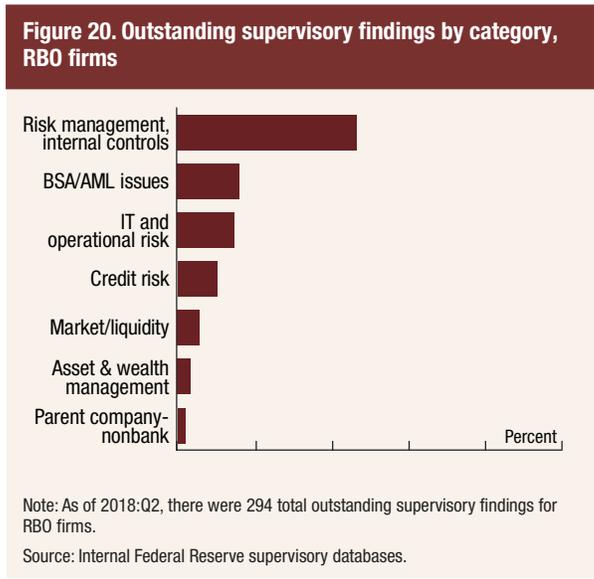
<sup>1</sup> See SR letter 96-38, “Uniform Financial Institutions Rating System” at [www.federalreserve.gov/boarddocs/srletters/1996/sr9638.htm](http://www.federalreserve.gov/boarddocs/srletters/1996/sr9638.htm).  
<sup>2</sup> See Evaluation Report 2018-SR-B-010, June 20, 2018, on the OIG website at <https://oig.federalreserve.gov/reports/board-consolidated-supervision-jun2018.htm>.

Despite the growing number of RBOs, the total number of supervisory findings cited for RBO firms has declined over the past five years. Internal audit, BSA/AML, and risk-management weaknesses have been among the leading supervisory findings for RBOs for several years, reflecting the need for these capabilities to evolve commensurate with the increased size, scope, and complexity of these firms.

Figure 20 depicts the current breakdown of outstanding supervisory findings by category for RBO firms. Because of substantial recent growth at several firms, the RBO supervisory program has focused on assessing centralized control functions, including internal controls and audit, loan review, corporate compliance programs, IT infrastructure, and other areas impacted by merger integrations.

*RBO reviews identify opportunities for risk-management improvement but not widespread safety-and-soundness concerns.*

Reserve Banks recently conducted coordinated reviews of sales practices/incentive compensation and commercial credit underwriting at certain RBO state member banks (SMBs). The sales practices/incentive compensation review evaluated the range of practices for the design and implementation of incentive compensation programs; controls to prevent, detect, and report unauthorized account openings; risk-assessment processes; internal audit reviews; complaints processing; and employee terminations and separations.



Overall, the reviews identified acceptable practices and, when noted, findings were determined to be correctable in the normal course of business. Reserve Banks continue to regularly

review consumer complaints for potential issues and discuss supervisory expectations with respect to maintaining a measured and balanced incentive compensation program.

In the underwriting review, examiners reviewed a sample of recently underwritten commercial loans and concluded that the majority included acceptable structures, terms, and adequate credit analysis. Examiners provided feedback to firms so they could address weakness in some areas as needed, including policy exceptions, financial covenants, financial analysis, guarantor support, and liberal credit structures.

### **Box 10. Upcoming RBO Supervisory Priorities**

#### **Credit Risk**

- Concentrations of credit
- Commercial real estate and construction & land development
- Underwriting practices

#### **Operational Risk**

- Merger and acquisition risks
- Information technology and cybersecurity

#### **Other**

- Sales practices and incentive compensation
- Bank Secrecy Act/anti-money-laundering

Supervisory priorities for each RBO are established during a supervisory planning process. Supervisory plans are coordinated with the subsidiary depository's primary regulator, as appropriate, and are tailored to idiosyncratic risk characteristics of each institution. Risks are also monitored across the portfolio. Some common risk focus areas that have emerged for the RBO portfolio for the current supervisory cycle are included in [box 10](#).

## **Supervision of Community Banking Organizations**

*Community banks are currently in robust financial condition.*

Capital levels at CBO firms have remained high over the past decade, following a slight drop during the financial crisis. Common equity tier 1 ratios for CBO firms average above 13 percent. More than 99 percent of the companies in this portfolio report capital ratios consistent with the “well capitalized” designation under interagency capital guidelines. Similar to the RBO portfolio, there has been a slight uptick in liquidity risks associated with this portfolio, although the majority of CBO firms are still considered to have low-to-moderate liquidity risk.

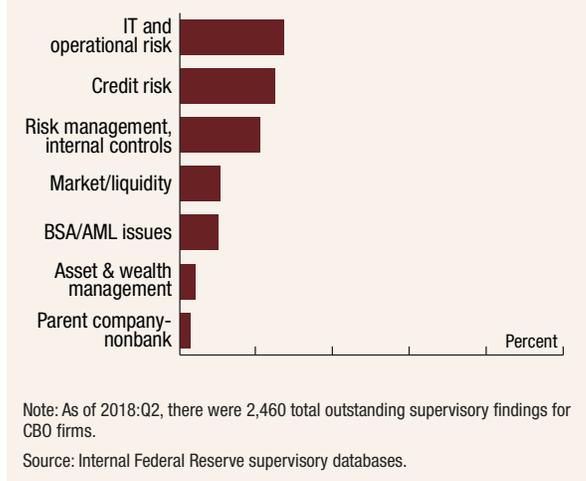
The trend of consolidation among community banks has continued. The net impact of charter conversions, mergers, and a single bank failure was a 2 percent decline in the total number of SMBs in 2017. This decline is roughly in line with trends from recent years.

*CBO supervisory findings have been declining.*

During 2017, the Federal Reserve led examinations at 332 CBO SMBs and conducted 2,256 holding company inspections.<sup>18</sup> For CBO SMBs, the vast majority exhibit a moderate-risk

<sup>18</sup> For noncomplex holding companies with less than \$1 billion in assets (referred to as “small shell holding companies”) the Federal Reserve uses an offsite inspection program that relies substantially on the work performed by the insured depository institution regulator.

**Figure 21. Outstanding supervisory findings by category, CBO firms**



profile, with only 27 considered high risk. Based on recent examination findings, the direction of risk at CBO SMBs is stable. The volume of supervisory findings at CBOs has steadily declined over the past five years (figure 18), as has the number of firms under enforcement actions. Figure 21 depicts the current outstanding supervisory findings by category for CBO firms.

The decline in supervisory findings over recent years is consistent with the improved ratings of the portfolios and economic conditions. In part, the decline may be attributed to changes in bank underwriting practices. Specifically, post-crisis, community banks have reduced concentrations in cer-

tain asset classes—such as construction and land development lending.

*Supervisory focus remains on management of concentrations of credit, interest rate risk, and liquidity risk.*

Areas of emerging risk that have received supervisory attention over the recent period include the management of concentrations of credit (specifically, commercial real estate, agriculture, and oil and gas), the impact of rising interest rates, and increased liquidity risk.

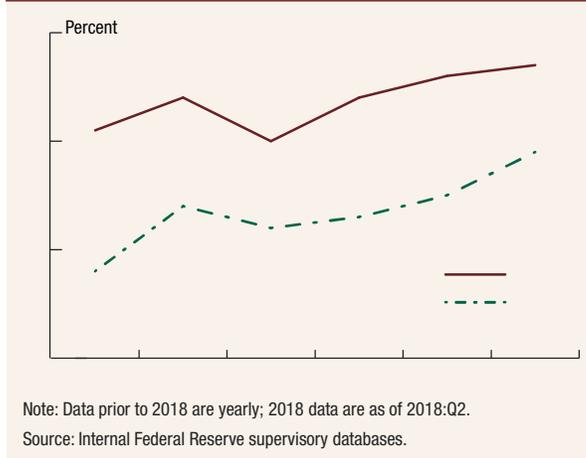
*CBO supervision priorities include efforts to modernize, increase efficiencies, and reduce burden associated with the examination process.*

The Federal Reserve continues to reduce unnecessary burden for community banks, including for supervisory examinations, as shown by the Bank Exams Tailored to Risk (BETR) pro-

gram (see box 11). As of the first quarter of 2018, changes in loan review procedures associated with the BETR program allowed examiners the discretion to reduce the number of loan files reviewed at community banks exhibiting low credit risk. Conversely, banks with higher credit risk may see higher levels of testing or more focus on evaluating credit administration policies and practices.

Furthering efforts to reduce burden associated with examinations, examiners are now conducting the majority of community bank examinations off-site (i.e., not at a supervised bank’s physical location) (figure 22).

**Figure 22. Percent of time spent offsite**



### **Box 11. Bank Exams Tailored to Risk (BETR) Program: Minimizing Regulatory Burden and Optimizing Supervision Resources**

In an effort to design an examination program that is more forward-looking and risk focused, the Federal Reserve developed risk metrics via the Bank Exams Tailored to Risk (BETR) program to assist with the scoping of examinations along different categories of risk.

For each risk category, BETR classifies each bank into one of three risk tiers: low, moderate, or high. In turn, these risk tiers provide examiners with a starting point for determining the scope of work to be performed during examinations. Examiners may also apply qualitative factors and their own judgment to confirm or adjust these model-driven risk tiers. For banks tiered as low risk, examiners perform limited transaction testing. In contrast, for high-risk banks, examiners apply the full extent of examination procedures.

BETR helps minimize regulatory burden and optimize the allocation of supervisory resources by directing examiners away from low-risk banks to higher-risk banks, and from low-risk areas to areas presenting heightened risk within a bank.

The BETR program has been deployed for six financial risks: credit, liquidity, interest rate, earnings, capital, and securities. These financial risk categories accounted for about half of community bank examination time in 2017. Credit risk is a key driver of community bank examinations and accounts for over one-third of all examination hours. The Federal Reserve is currently working to develop metrics for nonfinancial risks.

According to these BETR risk metrics, the share of banks tiered high risk is at, or near, historical lows for all six financial risks. As shown in [figure A](#), continuing improvement in earnings risk is especially noticeable.

In contrast, liquidity risk is displaying some deterioration. While the share of banks tiered high risk for liquidity has not increased, the moderate-risk tier is growing. In aggregate measures, loan growth has been robust, while core deposit growth has not always kept pace. To bridge that gap, some banks have increased their reliance on noncore funding sources, such as brokered and listing service deposits.

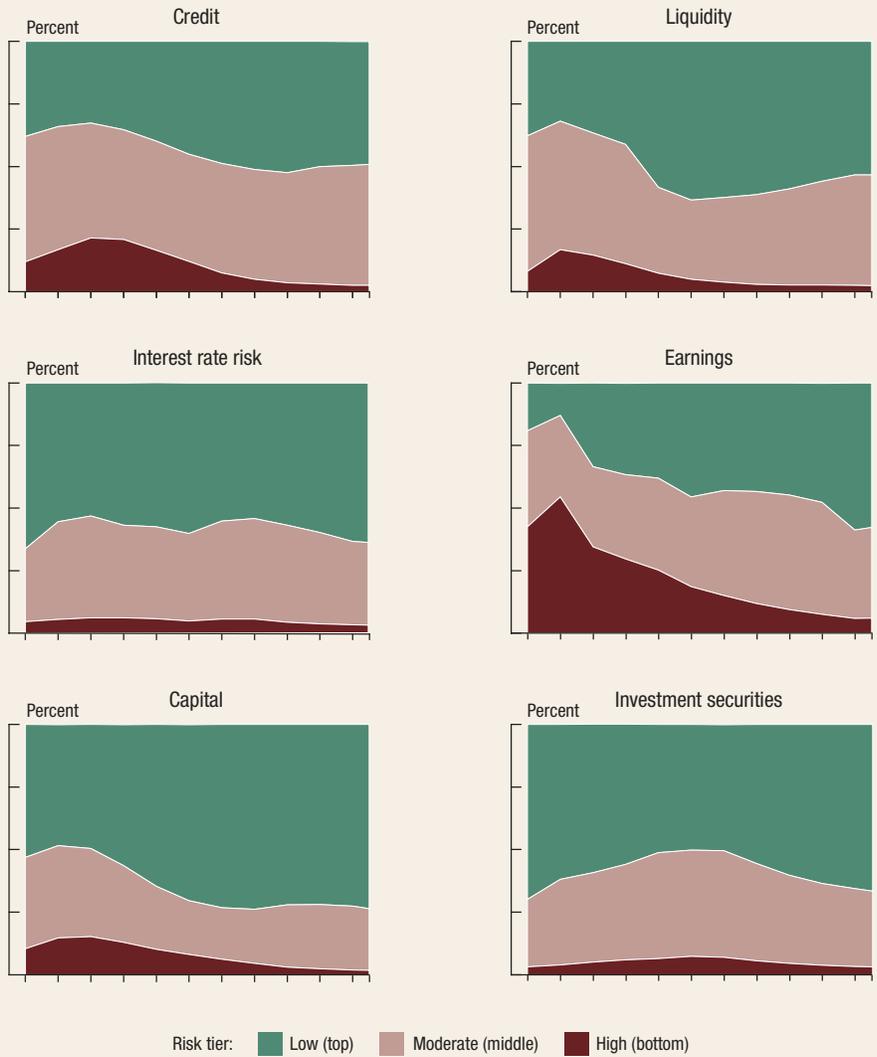
*continued on next page*

Finally, the Federal Reserve is actively participating with Federal Financial Institutions Examination Council (FFIEC) member agencies to review the technology platforms used to communicate with other regulators and supervised institutions and together are pursuing opportunities to further leverage technology platforms to reduce regulatory burden.

Community SMB supervision is driven by statutory mandates, and the Federal Reserve conducts a full-scope examination each supervisory cycle. Some of the emerging or higher-risk areas for CBOs for this supervisory cycle are included in [box 12](#).

**Box 11. Bank Exams Tailored to Risk (BETR) Program: Minimizing Regulatory Burden and Optimizing Supervision Resources—*continued***

**Figure A. Risk tiering trends for community and regional banks based on BETR**



Source: Call Report and staff calculations.

**Box 12. Upcoming CBO Supervisory Priorities**

**Credit Risk**

- Concentrations of credit
- Commercial real estate and construction & land development
- Agriculture

**Operational Risk**

- Information technology and cybersecurity

**Other**

- Bank Secrecy Act/anti-money-laundering
- Liquidity risk



# Appendix A: Data

## Definition of Data Sources

The *Supervision and Regulation Report* consists of data from institutions supervised in whole, or in part, by the Federal Reserve System. This appendix details these sources.

### **FFIEC Call Reports**

The FFIEC *Consolidated Reports of Condition and Income*, also known as the Call Report, is a periodic report that is required to be completed by every national bank, state member bank, and insured nonmember bank as of the last day of each calendar quarter. The details required to be reported depend on the size of the institution, the nature of the institution's activities, and whether or not it has foreign offices. Call Report data are a widely used source of timely and accurate financial data regarding a bank's financial condition and the results of its operations. The data collected from the Call Report are used to monitor the condition, performance, and risk profiles of the institutions as individuals and as an industry.

### **FR Y-9C**

The *Consolidated Financial Statement for Holding Companies*, also known as the FR Y-9C report, collects basic financial data from domestic BHCs, SLHCs, U.S. IHCs, and securities holding companies (SHCs). Respondent burden reduction initiatives led to the asset-sized threshold change from \$500 million to \$1 billion, and from \$1 billion to \$3 billion effective March 2015 and September 2018, respectively. In addition, BHCs, SLHCs, IHCs, and SHCs meeting certain criteria may be required to file this report, regardless of size. However, when such BHCs, SLHCs, IHCs, or SHCs own or control, or are owned or controlled by, other BHCs, SLHCs, IHCs, or SHCs, only top-tier holding companies must file this report for the consolidated holding company organization. The information contained in the report is as of the last day of each calendar quarter.

### **CCAR**

The *Comprehensive Capital Analysis and Review*, or CCAR, evaluates the capital planning processes and capital adequacy of the largest U.S.-based holding companies on an annual basis. This includes the firms' planned capital actions, such as dividend payments and share buybacks. Strong capital levels act as a cushion to absorb losses and help ensure that banking organizations have the ability to lend to households and businesses even in times of stress. When evaluating a firm's capital plan, the Board considers both quantitative and qualitative factors. Quantitative factors include a firm's projected capital ratios under a hypothetical scenario of severe economic and financial market stress. Qualitative factors include the strength of the firm's capital planning process, which incorporates risk management, internal controls, and governance practices that support the process.

## Notes on Specific Data

### Top Holder

All data, unless otherwise noted, use top-holder data. This population comprises top-tier commercial bank Call Report filers and top-tier Y-9C filers. In instances where a top-tier BHC does not file the Y-9C, we combine financial data of subsidiary banks to approximate the consolidated financial data of the bank holding company. Because of data limitations, all FBOs, SLHCs, and commercial bank subsidiaries of top-tier FBOs and SLHCs are excluded from the top-holder population.

### Common Equity Tier 1

The Federal Reserve's evaluation of a firm's common equity capital was initially measured using a tier 1 common capital ratio but now is evaluated using a common equity tier 1 (CET1) capital ratio, which was introduced into the regulatory capital framework with the implementation of Basel III. From 2006 through 2013, tier 1 common was used to measure common equity capital for all firms. In 2014, both tier 1 common capital (for non-advanced approaches firms) and common equity tier 1 capital (for advanced approaches firms) were used. From 2015 to present, common equity tier 1 capital was used for all firms.

Common equity tier 1 capital ratio is defined as common equity tier 1 as a percent of risk-weighted assets. While advanced approaches institutions are required to report an additional CET1 metric using an alternative calculation of risk-weighted assets, we use the standardized risk-weighted assets calculation in all cases to maintain consistency.

### Matters Requiring Attention (MRAs)/Matters Requiring Immediate Attention (MRIAs)

MRAs constitute matters that are important and that the Federal Reserve is expecting a banking organization to address over a reasonable period of time but when the timing need not be "immediate."

MRIAs are matters of significant importance and urgency that the Federal Reserve requires banking organizations to address immediately.<sup>19</sup>

### Well Capitalized Metric

Simplified for the purposes of this publication, firms that met or exceeded the "well capitalized" category according to the FDIC Prompt Corrective Action (PCA) guidelines as they existed in each quarter are considered well capitalized ([table A.1](#)).<sup>20</sup> While this standard applies to insured depositories, it is used as a proxy for holding companies in figure 6.

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<sup>19</sup> For more information about MRAs and MRIAs, see SR letter 13-13, "Supervisory Considerations for the Communication of Supervisory Findings," at [www.federalreserve.gov/supervisionreg/srletters/sr1313a1.pdf](http://www.federalreserve.gov/supervisionreg/srletters/sr1313a1.pdf).

<sup>20</sup> For more information on the FDIC's PCA, see [www.fdic.gov/regulations/laws/rules/1000-4000.html](http://www.fdic.gov/regulations/laws/rules/1000-4000.html).

**Table A.1. Prompt Corrective Action (PCA) capital ratio categories**

Percent

PCA category	Total RBC ratio	Tier 1 RBC ratio	Common equity tier 1 RBC ratio	Tier 1 leverage ratio
Well capitalized	10	8	6.5	5
Adequately capitalized	8	6	4.5	4
Undercapitalized	<8	<6	<4.5	<4
Significantly undercapitalized	<6	<4	<3	<3
Critically undercapitalized	Tangible equity/total assets $\leq$ 2 percent			

Note: Values are as of the end of 2018:Q2

## CAMELS Ratings

Following an examination of a commercial bank, the examiner's conclusions regarding the overall condition of the bank are summarized in a composite rating assigned in accordance with guidelines provided under the Uniform Financial Institution Rating system (CAMELS). The composite rating represents an overall appraisal of six key assessment areas (components) covered under the CAMELS rating system: Capital, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk.

In addition, and separate from the interagency Uniform Financial Institutions Rating System, the Federal Reserve assigns a risk-management rating to all SMBs. The summary, or composite, rating, as well as each of the assessment areas, including risk management, is delineated on a numerical scale of 1 to 5, with 1 being the highest or best possible rating. Thus, a bank with a composite rating of 1 requires the lowest level of supervisory attention, while a 5-rated bank has the most critically deficient level of performance and therefore requires the highest degree of supervisory attention.

When appraising the six key assessment areas and assigning a composite rating, the examiner weighs and evaluates all relevant factors for downgrades and upgrades of supervisory ratings.<sup>21</sup>

## Highly Liquid Assets

The highly liquid assets (HLA) displayed here are an approximation of the high-quality liquid assets (HQLA) used by regulators. HLAs are the sum of the following items:

- cash: includes all interest-bearing and noninterest-bearing deposits.

<sup>21</sup> For more information regarding composite rating considerations, see SR letters 95-51, 96-38, and 16-11 at [www.federalreserve.gov/supervisionreg/srletters/srletters.htm](http://www.federalreserve.gov/supervisionreg/srletters/srletters.htm), as well as the Commercial Bank Examination Manual appendix section A.5020.1 at [www.federalreserve.gov/publications/files/cbem.pdf](http://www.federalreserve.gov/publications/files/cbem.pdf); with regard to CAMELS rating upgrades, see SR letter 12-4 at [www.federalreserve.gov/supervisionreg/srletters/sr1204.htm](http://www.federalreserve.gov/supervisionreg/srletters/sr1204.htm).

- U.S. Treasury securities and government agency obligations
- federal funds sold in domestic offices and securities purchased under agreements to resell
- other U.S. government-guaranteed securities: includes mortgage-backed securities (MBS) issued or guaranteed by the U.S. government or a government-sponsored enterprise (GSE), and MBS collateralized by MBS issued or guaranteed by the U.S. government or GSEs. Includes held-to-maturity (amortized cost) and available-for-sale (fair value) securities.

Less the following item:

- pledged securities

Because of changes in the Call Report and FR Y-9C since the first quarter of 2006, the definition of HLA is not consistent during the entire time series. Agency commercial mortgage-backed securities are included in other U.S. government-guaranteed securities from the first quarter of 2006 until the first quarter of 2009 but are excluded from the second quarter of 2009 to the fourth quarter of 2010 before being included again in the first quarter of 2011. This is true for both banks and BHCs. Also note that the pledged securities category includes all pledged securities, including securities without government guarantees.

### **Allowance for Loan and Lease Losses (ALLL)**

The allowance for loan and lease losses, which was originally referred to as the “reserve for bad debts,” is a valuation reserve established and maintained by charges against the bank’s operating income. As a valuation reserve, it is an estimate of uncollectible amounts that is used to reduce the book value of loans and leases to the amount that is expected to be collected.

### **Nonperforming Loans**

Nonperforming loans, or problem loans, are those loans that are 90 days or more past due, plus loans in nonaccrual status.

### **Reserve Coverage Ratio**

The reserve coverage ratio is the ratio of ALLL over nonperforming loans. When calculating nonperforming loans for the reserve coverage ratio, loans provided by Ginnie Mae that have been repurchased or are eligible for repurchase have been removed.

### **Credit Default Swap (CDS) Spread**

The five-year CDS spread is reported in basis points relative to senior firm debt. Data are based on daily polls of individual broker-dealers worldwide. Note that these broker quotes are typically not transaction prices. Data provided are for LISCC (domestic and foreign) firms only.

### **Market Leverage**

The market leverage ratio—defined as the ratio of the firm’s market capitalization to the sum of market capitalization and the book value of liabilities—can be considered a market-based

measure of firm capital (expressed in percentage points). Data provided are for LISCC (domestic and foreign) firms only.

### **High-Quality Liquid Assets (HQLA)**

HQLA are estimated by adding excess reserves to an estimate of securities that qualify for HQLA. Excess reserves are estimated using balance data from internal Federal Reserve accounting records and reserve balance requirements computed based on confidential fillings of the FR 2900 Report of Transaction Accounts, Other Deposits, and Vault Cash. Securities are estimated from Form FR Y-9C. Haircuts and Level 2 asset limitations are incorporated into the estimate (Level 2 assets can represent only a limited share of the HQLA stock). Because of data availability constraints, HQLA amounts displayed in figure 12 are not based on 2052a reporting data.

### **Percent of Time Spent Offsite**

The percent of time spent offsite measures the percentage of examination and inspection time that occurs offsite for SMB, BHC, and SLHC safety-and-soundness events. Small shell holding companies, with assets less than \$1 billion, are excluded from these data.<sup>22</sup>

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<sup>22</sup> For more information regarding offsite examinations, see SR letters 16-8 and 95-13 at [www.federalreserve.gov/supervisionreg/srletters/srletters.htm](http://www.federalreserve.gov/supervisionreg/srletters/srletters.htm).



## Appendix B: Abbreviations

ALLL	allowance for loan and lease losses
AML	anti-money laundering
BETR	Bank Exams Tailored to Risk
BHC	bank holding company
BSA	Bank Secrecy Act
C&I	commercial and industrial
CAMELS	capital adequacy (C), asset quality (A), management (M), earnings (E), liquidity (L), and sensitivity to market risk (S) rating system
CBO	community banking organization
CCAR	Comprehensive Capital Analysis and Review
CDS	credit default swap
CECL	current expected credit loss
CET1	common equity tier 1
DOI	Department of Insurance
EGRRCPA	Economic Growth, Regulatory Relief, and Consumer Protection Act
FBO	foreign banking organization
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FR	<i>Federal Register</i>
GSE	government-sponsored enterprise
GSIB	global systemically important bank
HLA	highly liquid asset
HQLA	high-quality liquid asset
IHC	intermediate holding company
ISLHC	insurance savings and loan holding company
IT	information technology
LBO	large banking organization
LFBO	large and foreign banking organization
LFI	large financial institution
LISCC	Large Institution Supervision Coordinating Committee
MRA	matter requiring attention
MRIA	matter requiring immediate attention
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
PCA	Prompt Corrective Action

RBC	risk-based capital
RBO	regional banking organization
RFI	risk management (R), financial condition (F), impact of parent and nonbanking activities (I) rating system
ROAA	return on average assets
ROE	return on equity
SLHC	savings and loan holding company
SMB	state member bank
SR	supervision and regulation



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