

# **Introduction to the Federal Reserve Holding Company Rating System and the Source of Strength Policy**

## **Guest Speakers:**

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**Federal Reserve Bank of St. Louis**

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## Agenda



### RFI Rating System

- Overview - Component and Subcomponent Ratings
- Resources



### Source of Strength Policy

- Overview - Source of Financial and Managerial Strength Policy
- Resources

## Introduction – RFI Rating System

# Holding Company Rating System

- Risk Management (R)
- Financial Condition (F)
- Impact (I)
- Composite (C)
- Depository Institutions (D)

## Rating Definitions

1	• Strong
2	• Satisfactory
3	• Fair
4	• Marginal
5	• Unsatisfactory

**\* Ratings Except for the Impact Component**

## Risk Management Subcomponents

- **Board and Senior Management Oversight**
- **Policies, Procedures, and Limits**
- **Risk Monitoring and Management Information Systems**
- **Internal Controls**

## Financial Subcomponents

- **Capital**
- **Asset Quality**
- **Earnings**
- **Liquidity**

# Impact Component Rating Definitions

1	<ul style="list-style-type: none"> <li>• <b>Low</b> Likelihood of Significant Negative Impact</li> </ul>
2	<ul style="list-style-type: none"> <li>• <b>Limited</b> Likelihood of Significant Negative Impact</li> </ul>
3	<ul style="list-style-type: none"> <li>• <b>Moderate</b> Likelihood of Significant Negative Impact</li> </ul>
4	<ul style="list-style-type: none"> <li>• <b>Considerable</b> Likelihood of Significant Negative Impact</li> </ul>
5	<ul style="list-style-type: none"> <li>• <b>High</b> Likelihood of Significant Negative Impact</li> </ul>

# Risk Management Factors – Impact Component Rating

- Strategic Considerations
- Operational Considerations
- Legal and Reputational Considerations
- Concentration Considerations

## Financial Factors – Impact Component Rating

- Capital Distributions
- Intra-group Exposures
- Parent Company Cash Flow and Leverage

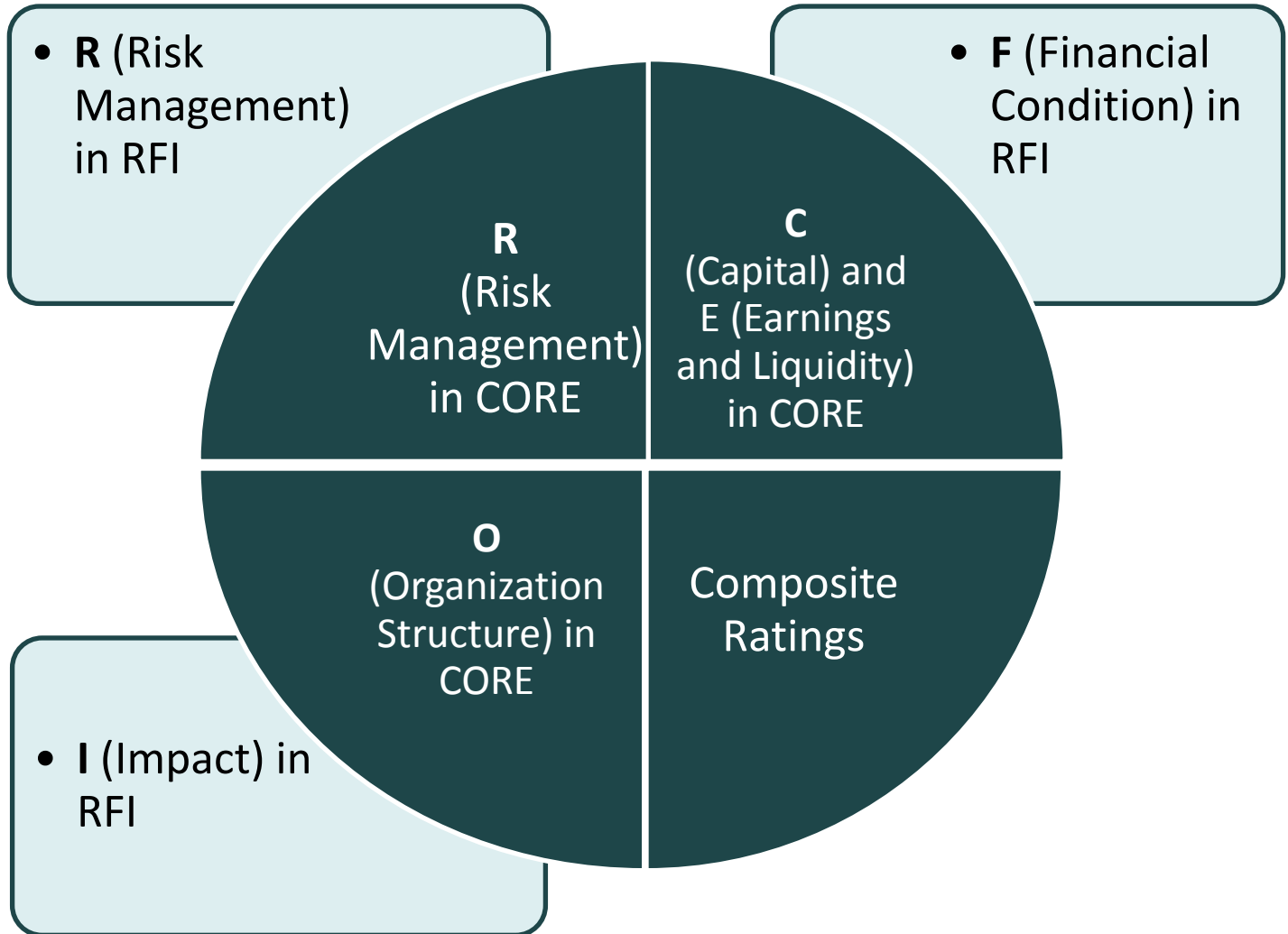
## The Composite (C) Rating

- **Overall Assessment of Consolidated Organization**
- **Reflected by Risk Management, Financial Strength, and Potential Impact of Nondepository Entities on the Depository Subsidiaries**
- **Not a Simple Average - Reflects Examiner Judgment with Respect to the Relative Importance of Each Component**

## Depository Institutions Component Rating (D)

- **Generally - Composite CAMELS Rating as Assigned by Primary Regulator**
- **With Multi-bank Holding Companies - Generally the Weighted Average of Composite CAMELS Ratings as Assigned by Primary Regulators**

## Ratings Comparison



## Resources

Resource	Location
Bank Holding Company Supervision Manual	<a href="http://www.federalreserve.gov/boarddocs/supmanual/">http://www.federalreserve.gov/boarddocs/supmanual/</a>
SR 04-18, “Bank Holding Company Rating System”	<a href="http://www.federalreserve.gov/boarddocs/srletters/2004/sr0418.htm">http://www.federalreserve.gov/boarddocs/srletters/2004/sr0418.htm</a>
SR 95-51, “Rating the Adequacy of Risk Management Processes and Internal Controls at State Member Banks and Bank Holding Companies”	<a href="http://www.federalreserve.gov/boarddocs/srletters/1995/sr9551.htm">http://www.federalreserve.gov/boarddocs/srletters/1995/sr9551.htm</a>
SR 02-1, “Revisions to Bank Holding Company Supervision Procedures for Organizations with Total Consolidated Assets of \$5 Billion or Less”	<a href="http://www.federalreserve.gov/boarddocs/srletters/2002/sr0201.htm">http://www.federalreserve.gov/boarddocs/srletters/2002/sr0201.htm</a>

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## Source of Strength Policy

# Source of Strength Policy and Regulation Y

- **Fundamental and Long-standing Principle**
  - Bank holding companies (BHCs) should serve as sources of financial and managerial strength to subsidiary depository institutions.
- **Section 225.4(a)(1) of Regulation Y**
  - “A bank holding company shall serve as a source of financial and managerial strength to its subsidiary banks and shall not conduct its operations in an unsafe or unsound manner.”

# Capital Support and Planning Managerial Strength

- **Shall Not Withhold Financial Support from a Bank in Weakened or Failing Condition**
- **BHC Capital Planning Processes**
- **Managerial Strength**

## Resources

Resource	Location
Bank Holding Company Supervision Manual	<a href="http://www.federalreserve.gov/boarddocs/supmanual/">http://www.federalreserve.gov/boarddocs/supmanual/</a>
SR 09-4, “Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies”	<a href="http://www.federalreserve.gov/boarddocs/srletters/2009/SR0904.htm">http://www.federalreserve.gov/boarddocs/srletters/2009/SR0904.htm</a>

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