

# Regional Banking: Beyond Examinations

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## Transitioning to Regional Bank Organization (RBO) Supervision

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# A New Outreach Series from The Regional Bank Supervision Outreach Group



# Discussion Agenda

- RBO portfolio and changes to supervision
  - Supervisory portfolio designations and key regulations
  - How does supervision change?
    - Continuous supervision model
    - Loan sampling requirements
- Evolution of internal audit / SR Letter 13-1, “Supplemental Policy Statement on the Internal Audit Function and Its Outsourcing” / keys to success
- Evolution of risk management and governance / keys to success
- Q&A

# Polling Question #1

**Across the entire portfolio of financial institutions, which portfolio do you think has grown at the fastest rate in recent years?**

- A. Community Bank Organization (CBO) (< than \$10 billion in consolidated assets)
- B. RBO (between \$10 billion and \$100 billion in consolidated assets)
- C. Large Bank Organization (LBO) (> than \$100 billion in consolidated assets)
- D. Unsure

# RBO Portfolio Overview

- The Federal Reserve considers financial institutions with assets between \$10 billion and \$100 billion as RBOs.
  - Currently 102 RBOs
  - Fast-growing portfolio – net increase of 21 firms in 2022
  - Current RBO portfolio by bank lead charter

SMB	NMB	NAT	FSB	SSB	S&L	I-SLHC
29	39	20	5	4	3	2

Please see acronym slide for full terms.

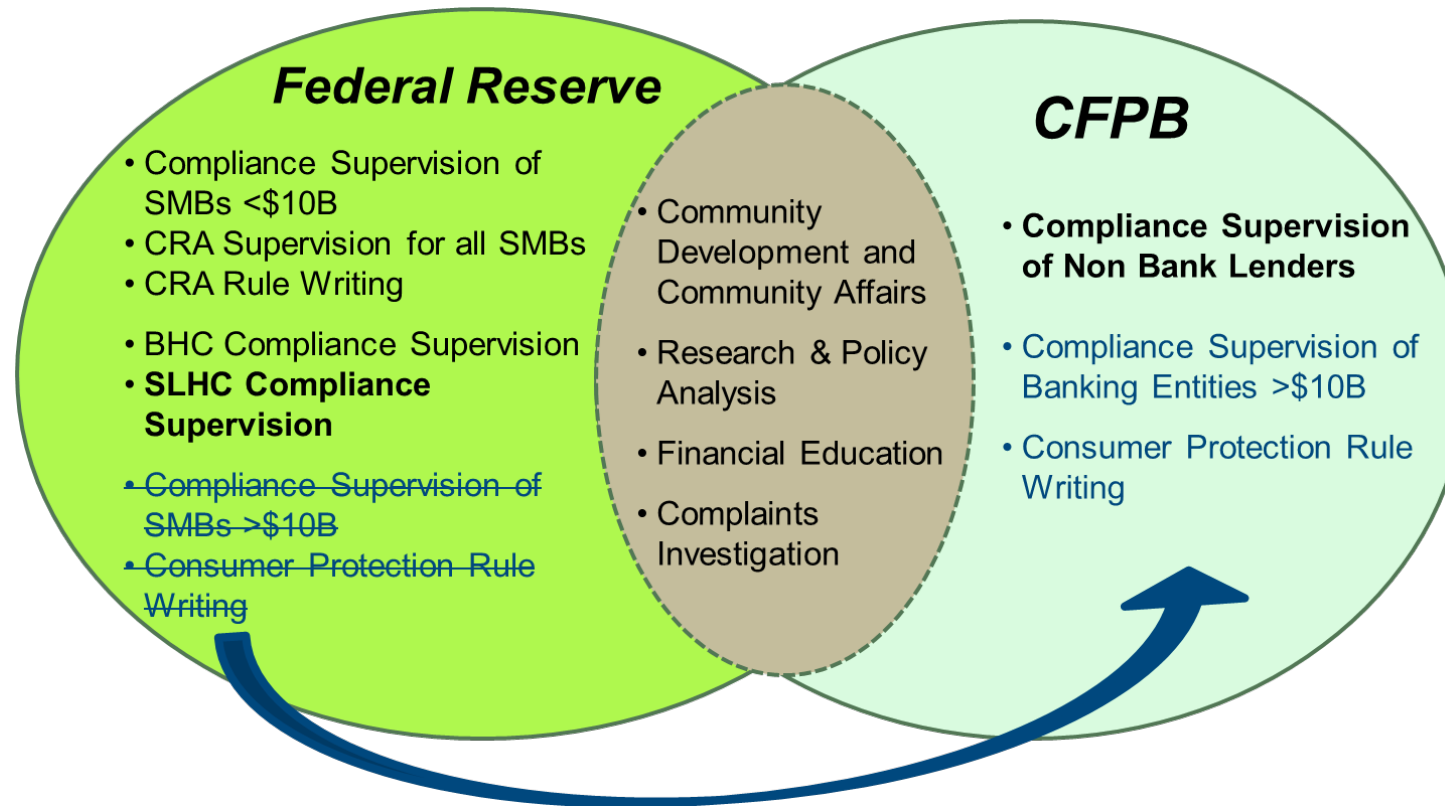
# Supervisory Portfolio Designations and Key Regulations

- Federal Reserve Bank (FRB) oversight
  - Transition to RBO portfolio within six months of crossing \$10 billion in assets
    - Factor organic growth versus growth via acquisition
- Federal Deposit Insurance Company (FDIC) oversight
  - Large Insured Depository Institution process starts after two consecutive quarters > \$10 billion
  - Determines FDIC insurance expense
- Consumer Financial Protection Bureau (CFPB) oversight
  - Authority discussed on next slide
  - Dedicated contact and routine monitoring
  - Report review
- Regulatory Considerations
  - Regulation II (12 CFR 235) / Durbin Amendment
  - Many regulations apply to firms in all supervisory portfolios (e.g., exam mandates, BSA)
  - Dodd Frank Stress testing requirements were eliminated in 2019. See 84 Fed. Reg. 59230 (November 1, 2019)

# Consumer Compliance

Consumer protection post Dodd-Frank

- CFPB examines banks > \$10 billion for consumer compliance





# How Does Supervision Change After Crossing \$10 Billion?

## CBO Versus RBO Supervision

### CBO

- Generally, one full-scope supervisory event every 12–18 months
- Communication with FRB point of contact as needed
- Joint events or independent events alternating with state agencies



### RBO

- Supervisory plan establishes the focus and timeline.
- Joint target events occur throughout the cycle.
- Continuous Monitoring
- Annual roll-up assessment incorporates conclusions from prior events.
- Frequent communication with points of contact for Safety & Soundness and Consumer Compliance

# Continuous Supervision Model – What Does It Look Like?

- Continuous monitoring examples:
  - Reviewing board and committee packages / minutes
  - Analyzing management information systems (MIS) reporting on key risks (credit, market, liquidity, operational, and compliance)
  - Assessing financial trends and reporting
  - Meetings with management
  - Information sharing with other agencies
- Best practices:
  - Coordinated document submission / process owner
  - Proactive communication
  - Establish preferences

# RBO Loan Sampling Requirements

- SR Letter 14-4, “Examiner Loan Sampling Requirements for State Member Bank and Credit Extending Nonbank Subsidiaries of Bank Holding Companies in the Regional Banking Organization Supervisory Portfolio”
  - Two credit targets per annual supervisory cycle
  - Targets focus on one or more material commercial loan segments
  - Material retail loan segments will be reviewed
  - Asset portfolios that contribute more than 25 percent of annual revenue
  - Areas of emerging risk
- A coverage floor of 10 percent of committed loan exposures is required
- Assess:
  - Asset quality component rating
  - Credit risk management practices
  - Internal controls, including the effectiveness of loan review

# Polling Question #2

**When firms conduct an audit gap assessment (SR Letter 13-1), where are the biggest gaps?**

- A. Risk Assessment / Audit Planning
- B. Audit Staffing and Leadership
- C. Audit Committee Oversight
- D. All of the above
- E. Unsure

# Internal Audit

SR Letter 13-1/CA Letter 13-1 “Supplemental Policy Statement on the Internal Audit Function and its Outsourcing Enhanced Internal Audit Practices”

- Risk analysis
- Thematic control issues
- Challenging management and policy
- Infrastructure
- Risk tolerance
- Governance and strategic objectives
- Examiners will opine on audit every cycle and are required to perform a comprehensive review every three years

# Internal Audit – Keys to Successful Transitions

- SR Letter 13-1 gap assessment
- External Quality Assurance Review
- Audit Planning and Risk Assessment
- Audit Talent and Independence Review
- Audit Committee Oversight
- Engagement with Regulators

# Polling Question #3

**When firms cross the \$10 billion in consolidated asset threshold and become RBOs, what are the biggest challenges faced?**

- A. Adjusting to different supervisory processes
- B. Increased expectations for the audit function
- C. An expanding scope of risk management and governance considerations
- D. All of the above
- E. Other/Unsure

# Evolution of Risk Management and Governance

## – Keys to Success

- Active engagement by the board and senior management
  - Organizational structure
  - Risk control and compliance
  - Qualifications and skills of the board and management
  - Strategic planning
- Strong data governance framework and MIS
- Third-party services
- Project management



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# Acronyms

CBO: community banking organization

CFPB: Consumer Financial Protection Bureau

FDIC: Federal Deposit Insurance Corporation

FRB: Federal Reserve

FSB: federal savings bank

I-SLHC: insurance savings and loan holding company

LBO: large banking organization

LIDI: large insured depository institution

MIS: management information systems

NAT: national bank

NMB: nonmember banks

RBO: regional banking organization

SLHC: savings and loan holding company

SMB: state member bank

SSB: state savings bank

S&L: savings and loan association

# Additional Resources

- SR letter 19-4 / CA letter 19-3, “Supervisory Rating System for Holding Companies with Total Consolidated Assets Less Than \$100 billion”
- SR Letter 17-12, “Timing Expectations for the Completion of Safety-and-Soundness Examination and Inspection Reports for Regional Banking Organizations”
- SR letter 16-11, “Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$100 Billion”
- SR letter 14-4, “Examiner Loan Sampling Requirements for State Member Bank and Credit Extending Nonbank Subsidiaries of Bank Holding Companies in the Regional Banking Organization Supervisory Portfolio”
- SR letter 13-1/CA letter 13-1, “Supplemental Policy Statement on the Internal Audit Function and its Outsourcing”
- SR Letter 08-9/CA letter 08-12, “Consolidated Supervision of Bank Holding Companies and the Combined U.S. Operations of Foreign Banking Organizations”
- [Bank Holding Company Supervision Manual](#) Section 1050.2, “Consolidated Supervision of Regional Holding Companies”
- [Memorandum of Understanding on Supervisory Coordination](#) (June 4, 2012)