



Supervision and Regulation Report

November 2021



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Preface

The Federal Reserve Board publishes its semiannual Supervision and Regulation Report to inform the public and provide transparency about its supervisory and regulatory policies and actions, as well as current banking conditions. The report is typically released in conjunction with Congressional testimony by the Vice Chair for Supervision.

This report focuses on the Federal Reserve’s regulatory and supervisory response to the “COVID event”—the economic and financial stresses resulting from the containment measures adopted in response to public health concerns.

Summary

The banking system was a source of strength through the COVID event. As the broader economy continues to recover, the Federal Reserve continues to closely monitor banking conditions, including banks' risks and operations.

In response to the COVID event, the Federal Reserve made temporary adjustments to its regulations and supervisory programs. These adjustments helped the banking industry meet the needs of customers and communities. In addition, the Federal Reserve modified its supervisory programs and approaches to allow banks to focus on their operations, conducting more supervision off site. Examinations were either paused or moved to monitoring exercises.

As the economy continues to recover, supervisory approaches have begun returning to normal. Many of the temporary adjustments to supervisory programs have ended. However, supervisors will maintain a focus on risks that may persist in this period of recovery.

This report focuses on developments in three areas:

1. [Banking System Conditions](#) provides an overview of current financial conditions in the banking sector. The first half of 2021 showed that banking conditions continued to improve from strong positions in 2020. Potential risks from the COVID event remain and will continue to be monitored. The report describes measures of health of the system, as well as areas of focus given ongoing uncertainty.
2. [Regulatory Developments](#) provides an overview of the Federal Reserve's recent regulatory policy work.
3. [Supervisory Developments](#) provides an overview of the Federal Reserve's supervisory programs and priorities. Supervisory activities are returning to pre-COVID approaches, but potential COVID-event risks remain a priority. The report also highlights differences in supervisory approaches among large, community, and regional banking organizations.

Banking System Conditions

The Banking System’s Financial Condition Has Improved, while Some Concerns Persist

Overall, the financial condition of the banking system was strong and improved in the first half of 2021, yet some concerns persist.¹ Banks continued to report robust levels of capital and liquidity. Ample capital and liquidity positions make banks more resilient to economic shocks and allow them to continue to support the economic recovery. In the first half of 2021, financial conditions improved: early signs of loan growth emerged, the loan delinquency rate fell, bank profitability increased, and loans in forbearance declined.

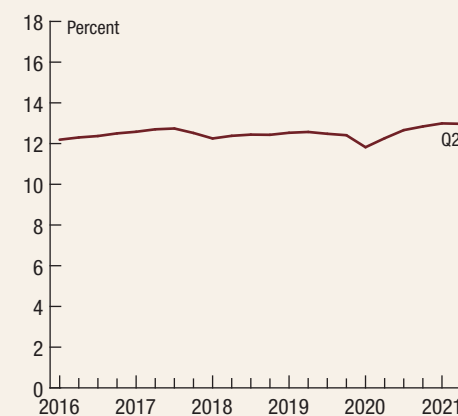
Despite these positive developments, there are some concerns. The banking industry’s average net interest margin—a bank’s yield on its interest-bearing assets after netting out interest expense—remains low. Moreover, while early signs of loan growth are emerging, loan growth has been weak overall. The low net interest margins, combined with weak loan growth, have caused net interest income to decline.

Also, although the aggregate loan delinquency rate fell, financial fallout from the COVID event may continue for some time. Loan delinquency rates may increase in certain sectors, particularly if the COVID event continues and dampens the economic recovery. The path toward full economic recovery is uncertain and contingent on the evolving public health crisis.

Capital and liquidity remain sources of strength.

Banks have reported strong capital levels during the COVID event, and those levels rose in the first half of 2021. The aggregate common equity tier 1 capital (CET1) ratio increased to nearly 13 percent, higher than the ratio reported prior to the COVID event (figure 1). Capital ratios were above regulatory requirements at nearly all banks, providing a buffer against losses and support for lending.

Figure 1. Aggregate common equity tier 1 (CET1) capital ratio

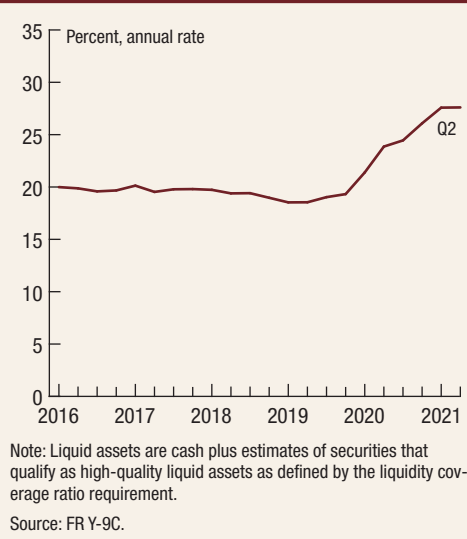


Note: CET1 capital ratio is the ratio of common equity tier 1 capital to risk-weighted assets. See the [data appendix](#) for further information. Community bank leverage ratio adopters (currently, about 38 percent of firms) are excluded.

Source: Call Report and FR Y-9C.

The Federal Reserve released the results of its 2021 annual stress test in June, which assessed whether large banks are sufficiently capitalized to absorb losses during a hypothetical recession and continue to lend to households and businesses. The June results showed that large

¹ This overview of banking system conditions is based on data collected by the Federal Reserve and other federal financial regulatory agencies, as well as market indicators of bank health. For more information, please see [appendix A](#).

Figure 2. Liquid assets as a share of total assets

banks had strong capital levels and were well positioned to support the ongoing economic recovery. Consequently, temporary capital distribution restrictions related to the COVID event were lifted, and large banks are now subject to the normal restrictions from the Board’s new stress capital buffer framework.²

Bank liquidity positions have also improved this year. Deposits increased by roughly \$1 trillion in the first half of 2021. Banks continue to invest these funds in liquid assets, such as cash and securities, providing protection against any instability of the new deposits. Liquid assets now comprise over 27 percent of total assets, well above pre-COVID-event levels (figure 2). Large banks remained above their regulatory liquidity coverage ratio requirements.

Firms remain operationally resilient, but concerns persist about cybersecurity threats.

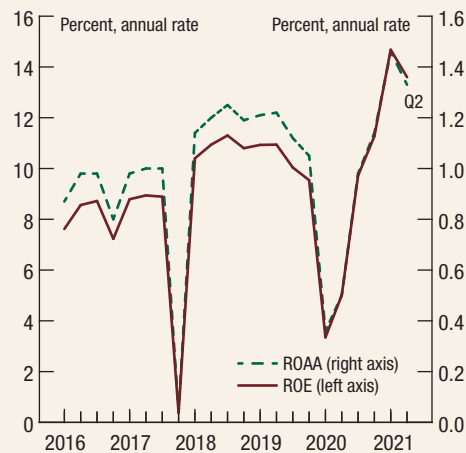
Prior Supervision and Regulation Reports have highlighted the industry’s resilience during the COVID event. Banks have continued to provide banking services and to engage with their customers, as each considers when and how to return to the office. The period of the COVID event has also seen an increase in cybersecurity events, which remain a top concern for both firms and supervisors.

Bank profitability recently exceeded pre-COVID-event levels.

Bank profitability, as measured by return on average assets (ROAA) and return on equity (ROE), exceeded pre-COVID-event levels in the first half of 2021, reaching a five-year high in the first quarter (figure 3). Negative provision expense, discussed in detail below, and higher noninterest income drove the first quarter improvement in earnings. Noninterest income benefited from higher investment banking fees and higher trading, mortgage, and wealth-management revenue. Aggregate provision expense remained negative in the second quarter, and noninterest income remained robust. Neither contributed to earnings as much as they did during the first quarter.

In response to the COVID event in early 2020, banks added to reserves to cover an anticipated increase in loan losses. This increase in credit loss expense, or provision expense, drove the sharp decline in earnings reported in early 2020. As the economy improved and loans

² See Board of Governors of the Federal Reserve System, news release, “Federal Reserve Board releases results of annual bank stress tests, which show that large banks continue to have strong capital levels and could continue lending to households and businesses during a severe recession,” June 24, 2021, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210624a.htm>.

Figure 3. Bank profitability

Note: ROE is net income/average equity capital, and ROAA is net income/average assets.

Source: Call Report and FR Y-9C.

Figure 4. Provisions as a share of average loans and leases

Source: Call Report and FR Y-9C.

performed better than expected, banks have reduced reserves. The resulting negative provision expense boosted bank earnings in the first half of 2021 (figure 4).

Market indicators of bank health point to financial strength.

The improvement to the banking system's overall financial condition is reflected in key market indicators for large firms, including the market leverage ratio and credit default swap (CDS) spreads. The market leverage ratio is a market-based measure of the strength of capital; a higher ratio generally reflects investor confidence in banks' financial resilience. CDS spreads are a measure of market perceptions of bank risk; a lower spread reflects investor confidence in banks' financial health. These measures deteriorated in early 2020 but have since improved. Recently, they stood near pre-COVID-event levels (figure 5).

Loan growth has been weak, but signs of a potential rebound have emerged.

Total loans grew through May 2020, boosted by commercial and industrial (C&I) loan commitment drawdowns and Paycheck Protection Program (PPP) loan originations, but then declined 5 percent in the last half of 2020. However, the decline in loans stabilized in early 2021, and some signs of growth have emerged. Total loan balances were flat in the first quarter of 2021 but have increased slightly since. Consumer loans and residential real estate loans, which were a drag on total loans in 2020, recently turned higher, and commercial real estate (CRE) loans have continued to rise (figure 6).

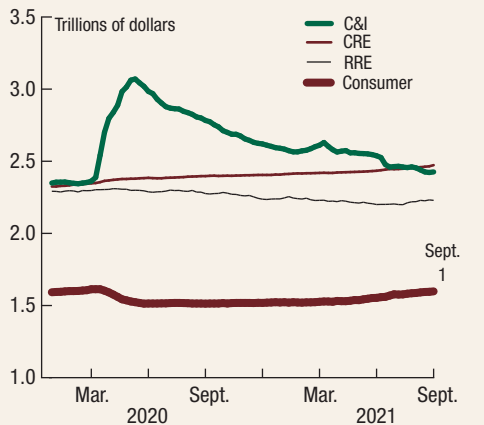
All consumer loan categories rose in the second quarter of 2021, leading total consumer loans to increase 3 percent from the prior quarter. Large firms reported more consumer spending on credit cards during the quarter. Strong consumer demand and higher vehicle prices drove growth in auto loans. The Federal Reserve's July 2021 Senior Loan Officer Opin-

Figure 5. Average credit default swap (CDS) spread and market leverage ratio (daily)



Note: The market leverage ratio is the ratio of a firm's market capitalization to the sum of market capitalization and the book value of liabilities. Averages are calculated from available observations for the eight LISC firms (Bank of America Corporation; The Bank of New York Mellon Corporation; Citigroup Inc.; The Goldman Sachs Group; JPMorgan Chase & Co.; Morgan Stanley; State Street Corporation; and Wells Fargo & Company).
Source: Bloomberg.

Figure 6. Loans by type



Note: Data are for all commercial banks.
Source: H.8, "Assets and Liabilities of Commercial Banks in the United States."

ion Survey cited higher demand and eased lending standards for consumer loans during the second quarter, a positive sign for future loan growth.³

Households have taken on more mortgage debt since the COVID event began, but the outstanding balance of residential real estate (RRE) loans at banks declined from the second quarter of 2020 through the second quarter of 2021. Home equity lines of credit (HELOCs) accounted for most of the decline in RRE balances. Some banks pared back or eliminated HELOCs, in response to the uncertainty brought about by the COVID event and consumer preference for other forms of lending. The decline in RRE loans also reflects increased competition from nonbank mortgage lenders, who originate more mortgages than banks. Recent data show RRE loans

began to increase in the third quarter of 2021, as growth in mortgage balances has more than offset continued decline in HELOCs.

C&I loans fell in the second quarter of this year, driven by PPP loan forgiveness (figure 7). C&I unused commitments increased in the second quarter, and the combination of C&I

³ See the July 2021 "Senior Loan Officer Opinion Survey on Bank Lending Practices" at <https://www.federalreserve.gov/data/sloos/sloos-202107.htm>.

Figure 7. C&I loans and unused commitments

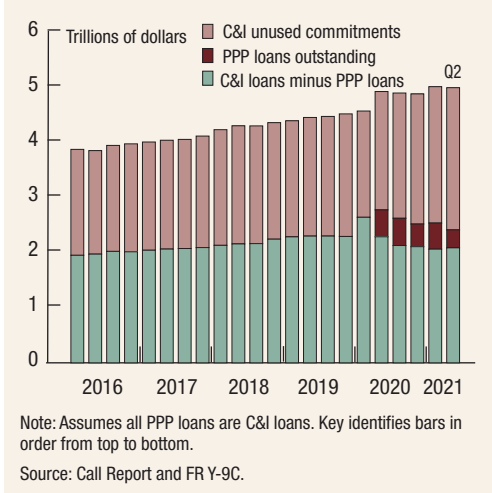
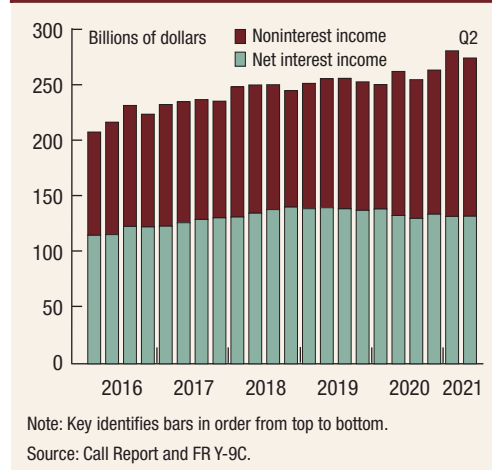


Figure 8. Net interest income and noninterest income



loans and unused commitments rose slightly year over year. As with consumer loans, respondents to the Federal Reserve’s July 2021 Senior Loan Officer Opinion Survey reported higher demand and eased lending standards for C&I loans.

Net interest margins remain under pressure.

The banking industry’s average net interest margin fell to a record low during the first half of 2021, hampering revenue growth. Net interest margins have declined steadily, as interest rates fell and banks invested much of their COVID-event-related deposit inflow into lower yielding assets, such as cash and securities. As discussed earlier in this report, noninterest income has grown this year, compensating for the lack of growth in net interest income (figure 8).

Loan delinquency rates have declined, but concerns persist in some sectors.

Aggregate loan delinquency rates fell during the first half of 2021. The improvement in delinquency rates was broad-based, with declines across all major loan categories (figure 9). At the same time, loan modification balances declined, as hardship programs continued to wind down. Loans modified in accordance with section 4013 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act decreased to approximately \$200 billion in the second quarter of 2021, down 30 percent from year-end 2020 and nearly 70 percent from the second quarter of 2020 (figure 10).

Figure 9. Loan delinquency rates

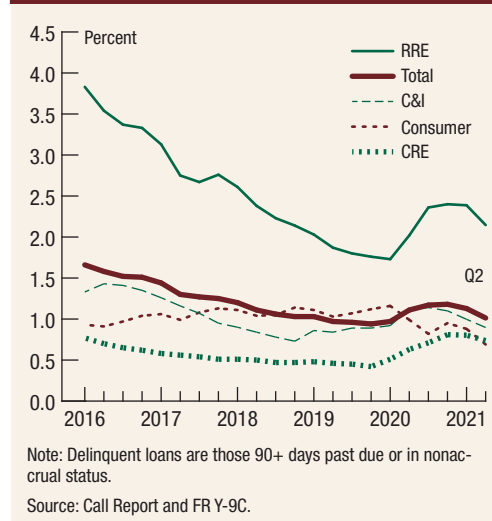
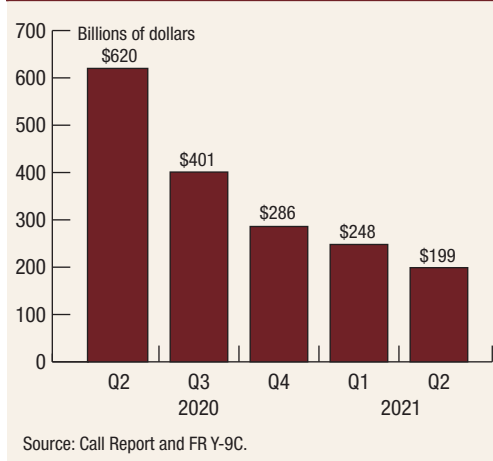


Figure 10. Section 4013 loan balances

reported net downgrades on CRE loans in the office sector. [Box 1](#) focuses on the CRE market, detailing broad learnings from supervisory work, highlighting key risk areas, and discussing ongoing supervisory efforts.

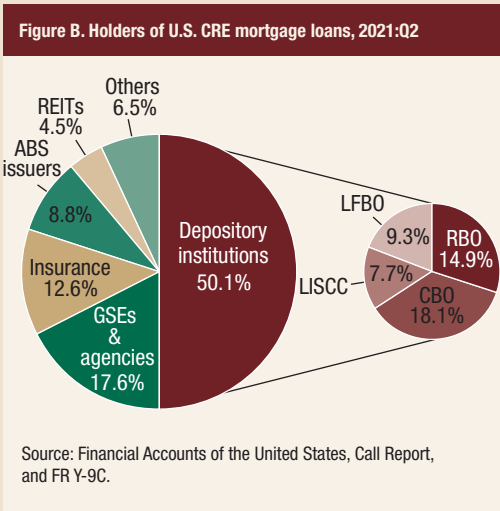
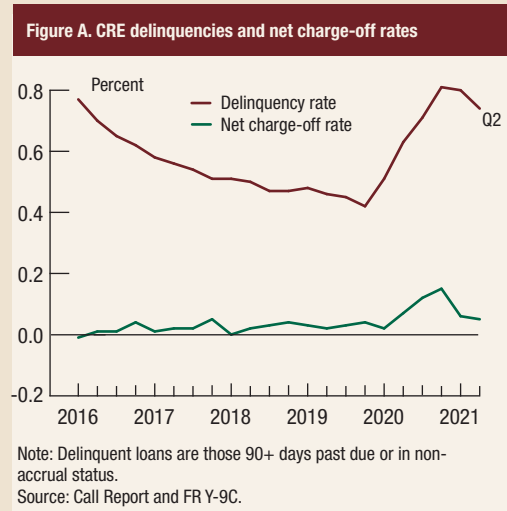
Although the overall state of credit quality appears favorable, some sectors more negatively affected by the COVID event warrant closer monitoring. As the COVID event emerged and worsened, large banks as a group downgraded their internal risk ratings on loans in COVID-susceptible sectors. For example, large banks reported net downgrades on C&I loans in the entertainment and recreation sector and on CRE loans in the hotel and retail sectors.

Ratings on loans in many COVID-susceptible sectors improved in the second quarter of 2021, but recovery continues to vary by location and sector. For example, while large banks reported quarter-over-quarter net upgrades on loans in most C&I sectors, they

Box 1. CRE Loans Warrant Continued Monitoring

Shutdowns and social-distancing measures related to the COVID event have strained commercial real estate (CRE) properties, especially retail, office, and hotel properties. Despite these areas of weaknesses, few banks have reported problems with CRE loans and delinquencies remain low (figure A). The pandemic’s impact on CRE loan performance has been softened by the governmental response. However, concerns remain about the future performance of CRE properties, particularly given uncertainties about where people will work, shop, and live.

Banks are a critical funding source of CRE debt and held approximately half of the \$5 trillion total loans outstanding to the U.S. CRE market at the end of the second quarter of 2021 (figure B). Supervisors have observed that banks have been actively monitoring CRE loans and downgrading them appropriately. Banks worked with their CRE borrowers and granted loan modifications. Many CRE borrowers who requested accommodations have returned to normal payment terms.



As the economy and the CRE market continue to recover, the Federal Reserve encourages banks to maintain sound underwriting standards. The Federal Reserve will closely monitor CRE loans and will remain focused on higher risk properties, such as hotels, office, and retail. The Federal Reserve will also monitor banks that hold higher concentrations of loans secured by CRE.

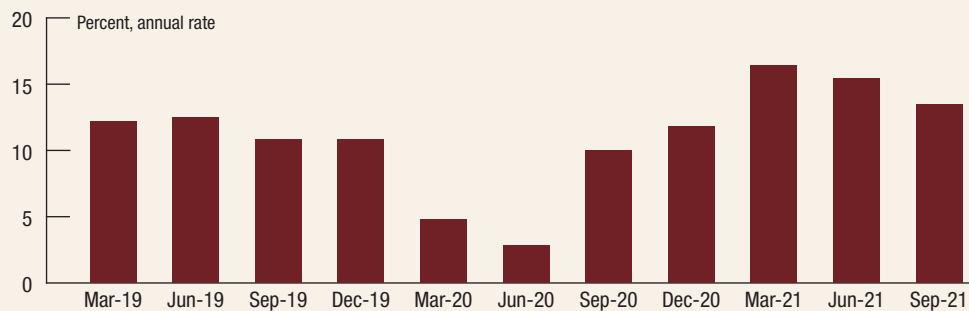
Box 2. Third-Quarter 2021 Earnings at a Sample of Large Banks

This box provides a recap of third-quarter 2021 banking sector conditions, based on third-quarter 2021 earnings results for a sample of large U.S. bank holding companies.¹ While such trends are indicative, it should be noted that the sample may not necessarily be representative of the banking sector as a whole.

Third-Quarter Earnings Remain above Pre-COVID-Event Levels

Preliminary third-quarter earnings data suggest large banks' earnings remained above pre-COVID-event levels but declined relative to levels earned in the first half of 2021. Aggregate bank profitability, as measured by ROE, approximated 14 percent in the third quarter for the sample, compared with 12 percent earned in full-year 2019 and 16 percent earned in the first half of 2021.

Figure A. Return on equity



Source: S&P Global Market Intelligence and earnings releases.

Banks continued to release credit loss reserves but at a slower pace than previous quarters. Reserve releases coincided with continued improvement in net-charge-off rates and other asset quality indicators, which remained near or fell to new historic lows during the quarter.

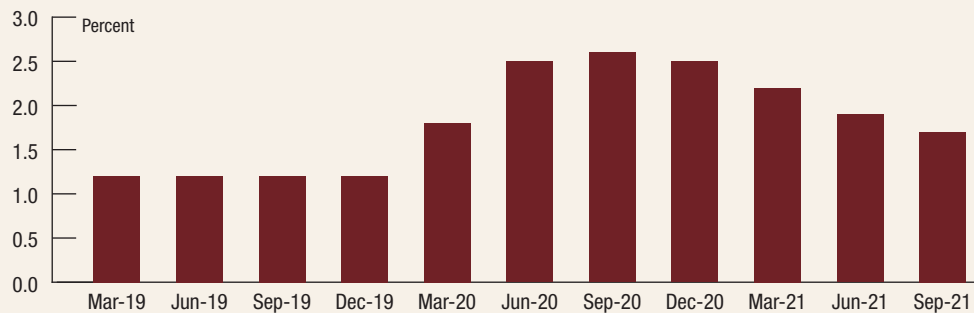
Net interest income and net interest margin improved quarter-over-quarter, in part reflecting growth in loans and securities as deposit growth persisted. Loan growth was strongest in the consumer sector. On earnings calls, bank management teams forecast continued net interest income growth, based on expectations for increased loan demand and higher interest rates.

(continued)

¹ This sample includes top-tier U.S. bank holding companies with total consolidated assets of \$100 billion or more as of 9/30/2020. These firms include: Ally Financial Inc., American Express Company, Bank of America Corporation, The Bank of New York Mellon Corporation, Capital One Financial Corporation, Citigroup Inc., Citizens Financial Group, Inc., Discover Financial Services, Fifth Third Bancorp, The Goldman Sachs Group, Inc., Huntington Bancshares Incorporated, JPMorgan Chase & Co., KeyCorp, M&T Bank Corporation, Morgan Stanley, Northern Trust Corporation, The PNC Financial Services Group, Inc., Regions Financial Corporation, State Street Corporation, Truist Financial Corporation, U.S. Bancorp, and Wells Fargo & Company.

Box 2. Third-Quarter 2021 Earnings at a Sample of Large Banks —continued

Figure B. Loan loss reserves as a percent of average loans



Note: See the data appendix for additional information.

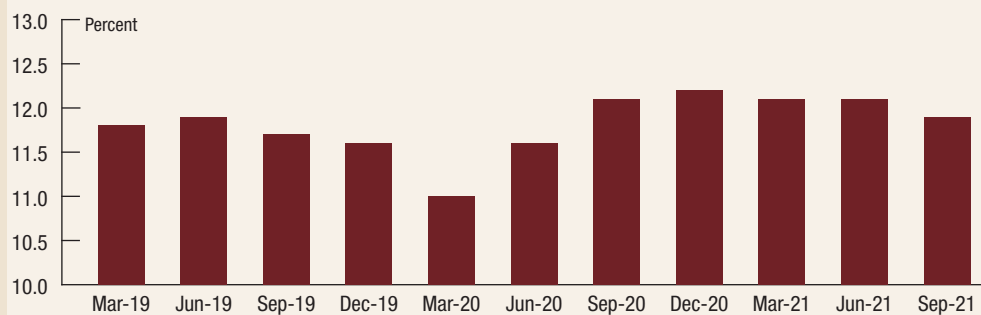
Source: S&P Global Market Intelligence and earnings releases.

Noninterest income trends were mixed across firms but declined in the aggregate from levels earned in the first half of 2021. This is despite elevated capital markets² revenues, which remained near a post-global financial crisis high. Operating expense trends were mixed across banks, though several management teams on earnings calls acknowledged increased compensation pressure.

Capital Ratios Declined but Remain above Pre-COVID-event Levels for Most Firms

Common equity tier 1 (CET1) ratios declined on a quarter-over-quarter basis for the majority of reporting banks. Ratio declines were driven by risk-weighted asset growth and higher capital distributions during the quarter, which for some firms exceeded earnings. Despite declines, the aggregate CET1 ratio for the reporting banks ended the third quarter near 12 percent, remaining above its level at the end of 2019.³

Figure C. CET1 ratio



Source: S&P Global Market Intelligence and earnings releases.

² Comprises revenue generated from debt underwriting, equity underwriting, mergers and acquisitions, equity trading and fixed income, and currency and commodity trading.

³ M&T Bank Corporation and Northern Trust Corporation are excluded from the aggregate CET1 ratio due to reporting differences.

Regulatory Developments

The Federal Reserve took a number of policy actions since the publication of the previous *Supervision & Regulation Report* in April 2021. These actions continue to promote the safety and soundness, transparency, and efficiency of the banking system. Significant actions are detailed in [table 1](#) below, and all Supervision & Regulation (SR) and Community Affairs (CA) letters are available on the Board’s public website.⁴

Additionally, the Federal Reserve continued to engage with other financial regulators and the public on emerging and transforming areas of risk, as detailed in [boxes 3](#) and [4](#) below.

Table 1. Federal Reserve or interagency rulemakings/statements (proposed and final) From 4/15/2021 to 9/9/2021	
Date issued	Rule/guidance
4/22/2021	Agencies invite comment on proposed rule for income tax allocation agreements. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210422a.htm
5/5/2021	Federal Reserve Board invites public comment on proposed guidelines to evaluate requests for accounts and payment services at Federal Reserve Banks. Federal Reserve Board press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210505a.htm
5/7/2021	Federal Reserve Board invites public comment on proposed changes to Regulation II regarding network availability for card-not-present debit card transactions and publishes a biennial report containing summary information on debit card transactions in 2019. Federal Reserve Board press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210507a.htm
5/14/2021	Federal Reserve Board announces the third extension of a rule to bolster the effectiveness of the Small Business Administration’s Paycheck Protection Program (PPP). Federal Reserve Board press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210514a.htm
6/2/2021	Federal Reserve Board issues final rule amending Regulation D regarding interest on reserve balances. Federal Reserve Board press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210602a.htm
7/1/2021	Federal Reserve announces it will soon release a new tool to help community banks implement Current Expected Credit Losses (CECL) accounting standard. Federal Reserve Board press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210701a.htm
7/13/2021	Agencies request comment on proposed risk management guidance for third-party relationships. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210713a.htm
7/20/2021	Interagency statement on Community Reinvestment Act joint agency action. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210720a.htm

(continued)

⁴ The Federal Reserve publishes SR and CA letters to address significant policy and procedural matters related to the Federal Reserve System’s supervisory responsibilities and its consumer compliance supervisory responsibilities, respectively. SR letters are available on the Board’s public website at <https://www.federalreserve.gov/supervisionreg/srletters/srletters.htm>, and CA letters are available on the Board’s public website at <https://www.federalreserve.gov/supervisionreg/caletters/caletters.htm>.

Table 1.—continued

Date issued	Rule/guidance
7/20/2021	Federal Reserve Board statement on the Community Reinvestment Act. Federal Reserve Board press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210720b.htm
8/27/2021	Agencies issue guide to help community banks evaluate fintech relationships. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210827a.htm
8/30/2021	Federal and state financial regulatory agencies issue interagency statement on supervisory practices regarding financial institutions affected by Hurricane Ida. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210830a.htm
8/31/2021	Federal and state financial regulatory agencies issue interagency statement on supervisory practices regarding financial institutions affected by California Wildfires. Interagency press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210831a.htm
9/9/2021	Federal Reserve published a paper describing landscape of partnerships between community banks and fintech companies. Federal Reserve Board press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210909a.htm

Box 3. Bank Innovation and Third-Party Relationships

The Federal Reserve supports responsible innovation by supervised institutions. Innovation should be conducted in a manner that ensures the safety and soundness of institutions and the protection of consumers. Many banks promote innovation through partnerships with third parties, including nonbank financial technology companies (fintechs). In light of the growing partnership landscape, Federal Reserve staff have published, or proposed, three resources in the third quarter of 2021.

First, in July, the Federal Reserve, along with the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) (federal bank regulatory agencies), requested public comment on proposed guidance designed to help banking organizations manage the risks of third-party relationships, including relationships with fintechs.¹ Banking organizations often use third parties to provide products or services or to perform other activities. Banking organizations remain responsible for ensuring that such outsourced activities are conducted in a safe and sound manner, and in compliance with all applicable laws and regulations, including consumer protection laws. The federal bank regulatory agencies seek to promote consistency in their guidance, better address the use of third parties, and articulate clear risk-based principles for banking organizations of all sizes and complexity.

Second, in August, the agencies published a guide to help community banks assess the risks when considering relationships with fintech companies. This guide is intended to serve as a resource for community banks to use as they conduct due diligence on prospective fintech partners.² Use of this guide is optional and does not create any new supervisory expectations. A community bank can choose relevant information in the guide based on its specific circumstances.

And finally, in September, the Federal Reserve published a paper on the evolving landscape of community bank partnerships with fintech companies.³ The paper describes different types of community bank–fintech partnerships and key considerations for engaging in them. The paper is based on insights gathered from a broad outreach effort and is intended to serve as a resource for both community banks and fintech companies.

The Federal Reserve will continue to provide resources and information as the banking system continues to innovate.

¹ See “Proposed Interagency Guidance on Third-Party Relationships: Risk Management,” 86 Fed. Reg. 38,182 (July 19, 2021), <https://www.govinfo.gov/content/pkg/FR-2021-07-19/pdf/2021-15308.pdf>.

² See Board of Governors of the Federal Reserve System, “Conducting Due Diligence on Financial Technology Firms: A Guide for Community Banks” (Washington: Board of Governors, August 2021), <https://www.federalreserve.gov/publications/conducting-due-diligence-on-financial-technology-firms.htm>.

³ See Board of Governors of the Federal Reserve System, “Community Bank Access to Innovation through Partnerships” (Washington: Board of Governors, September 2021), <https://www.federalreserve.gov/publications/files/community-bank-access-to-innovation-through-partnerships-202109.pdf>.

Box 4. Banks and Digital Asset Activities

Supervised firms are exploring a range of services involving digital assets such as bitcoin or stablecoins. While the use of digital assets, and the distributed ledger technology they operate on, presents opportunities, it also poses heightened risks. Risks to supervised firms include those related to the Bank Secrecy Act/anti-money-laundering, cybersecurity, price volatility, and consumer protection.

The federal bank regulatory agencies are committed to working together to provide an active, coordinated, and timely response to innovation in digital assets. To that end, the agencies are engaging in a series of “policy sprints” to better understand risks associated with digital asset activities and provide further clarity as appropriate with specific regard to digital assets.

The Federal Reserve recognizes that the market will continue to innovate, grow, and expand globally, creating new opportunities and risks. The Federal Reserve will continue to look to respond in a timely and transparent manner to support responsible innovation at our supervised institutions.

Supervisory Developments

Overview

The Federal Reserve supervises financial institutions to assess their safety and soundness and compliance with laws and regulations. This section provides an overview of key supervisory developments related to supervised institutions. The section distinguishes between large financial institutions and community and regional banking organizations because supervisory approaches and priorities differ across these groups of institutions.

The Federal Reserve also has responsibility for certain laws and regulations relating to consumer protection and community reinvestment. The scope of the Federal Reserve's supervisory jurisdiction varies based on the consumer law or regulation and on the asset size of the state member bank. Consumer-focused supervisory work is designed to promote a fair and transparent financial services marketplace and to ensure supervised institutions comply with applicable federal consumer protection laws and regulations.

More information about the Federal Reserve's consumer-focused supervisory program can be found in the Federal Reserve's *107th Annual Report 2020*.⁵

Supervisory Activities Are Returning to Pre-COVID Approaches

As conditions in the industry have stabilized, Federal Reserve supervisory activities are migrating back to pre-COVID approaches. When the COVID event began, supervisory activities were adjusted to allow banks to focus on their customers while allowing the Federal Reserve to monitor risks. Bank examinations were paused or replaced with monitoring activities. Additional information was collected from institutions on a real-time basis to track conditions. As the industry continues to remain in strong condition, most of these measures have been discontinued.

The Federal Reserve is reviewing which supervisory processes worked well during the COVID event and could be valuable to maintain. One area of this review has been on the use of off-site examinations. Off-site exams were used prior to the COVID event but became the only option during the height of the event. Banks have provided positive feedback on the use of off-site exams and activities during the COVID event. However, they have also expressed that they find value in having some on-site examiner presence. Once conditions allow, the Federal Reserve will resume using on-site exams as it has in the past. Based on experiences and feedback, the Federal Reserve intends to adopt an on-site and off-site "hybrid" approach.

Key Supervisory Priorities

While supervisory activities are adjusting back to pre-COVID approaches, priorities continue to focus on the uncertainty that the COVID event may have on the safety and soundness of supervised institutions. Examples of the lingering impact of the COVID event include the potential long-term impact on various credit segments, with a specific focus on CRE portfolios and consumer loan portfolios as forbearance and foreclosure moratoriums end. As men-

⁵ Board of Governors of the Federal Reserve System, *107th Annual Report* (Washington: Board of Governors, 2021), <https://www.federalreserve.gov/publications/files/2020-annual-report.pdf>.

Box 5. Federal Reserve Outreach Spotlight: “Ask the Fed”

The Federal Reserve has an outreach program supporting its supervision function to provide information on proposed and new regulations, supervisory expectations, and economic conditions. This program—referred to as *Ask the Fed*®—is intended for bankers, financial institutions, and other public stakeholders.¹ Launched in 2008, *Ask the Fed*® has served as an effective outreach program for Federal Reserve subject matter experts to reach these stakeholders on specific topics and allows participants to pose questions. The reach of this program has increased significantly over the past five years. The average attendance per session was 1,800 individuals in 2018, and in 2021, the average has been 3,200 attendees.

As an *Ask the Fed*® session requires only a phone for an individual to access, the Federal Reserve has been able to reach bankers and others who are working remotely. In a typical year, the Federal Reserve offers an average of 16 *Ask the Fed*® sessions. During the past 18 months, *Ask the Fed*® has proved to be a valuable outreach program, enabling the Federal Reserve to provide timely and detailed information on COVID-event-related topics. The Federal Reserve has held 46 sessions on pandemic-related topics over this time, with 92 percent of all participants indicating that a session was a good investment of their time. These sessions covered topics on the Federal Reserve’s supervisory posture, supervisory and accounting considerations for loan modifications, the Emergency Capital Investment Program, the Main Street Lending Program, the Paycheck Protection Program (PPP), and the PPP Liquidity Facility.

This technology platform is also used to host *Ask the Regulator* sessions that cover topics with other federal or state banking agencies or other federal agencies. For instance, the Federal Reserve hosted several presentations by the Small Business Administration (SBA) on the PPP so that the SBA could explain the program to banks and encourage their participation.

¹ For more information on the *Ask the Fed*® program, see the Federal Reserve Bank of St. Louis website at <https://bsr.stlouisfed.org/askthefed/Auth/Logon>.

tioned earlier in this report, operational and cybersecurity resilience are ongoing supervisory priorities.

Supervised Institutions

The Federal Reserve supervises bank holding companies, savings and loan holding companies, and state member banks of varying size and complexity. The Federal Reserve follows a risk-focused approach by scaling its supervisory work to the size and complexity of an institution.

- Firms identified as posing elevated risk to U.S. financial stability are supervised by the Large Institution Supervision Coordinating Committee, or LISCC, program.
- U.S. firms with assets of \$100 billion or more that are not supervised by the LISCC program and all foreign banking organizations are supervised by the Large and Foreign Banking Organization, or LFBO, program.

Table 2. Summary of organizations supervised by the Federal Reserve (as of 6/30/2021)

Firm description	Definition	Number of institutions	Total assets (\$ trillions)
Large Institution Supervision Coordinating Committee (LISCC) firms	U.S. global systematically important banks (G-SIBs)	8	14.3
LISCC State member banks (SMBs)	SMBs within LISCC organizations	4	1.1
Large and foreign banking organizations (LFBOs)	Non-LISCC U.S. firms with total assets \$100 billion and greater and foreign banking organizations (FBOs)	174	9.6
Large banking organizations (LBOs)	Non-LISCC U.S. firms with total assets \$100 billion and greater	17	4.6
Large FBOs (with IHC)	FBOs with combined U.S. assets \$100 billion and greater	11	3.0
Large FBOs (without IHC)	FBOs with combined U.S. assets \$100 billion and greater	7	0.9
Small FBOs (excluding rep offices)	FBOs with combined U.S. assets less than \$100 billion	109	1.2
Small FBOs (U.S. rep offices)	FBO U.S. representative offices	30	0.0
State member banks	SMBs within LFB/O organizations	10	1.3
Regional banking organizations (RBOs)	Total assets between \$10 billion and \$100 billion	87	2.5
State member banks	SMBs within RBO organizations	39	0.9
Community banking organizations (CBOs)	Total assets less than \$10 billion*	3,671	2.9
State member banks	SMBs within CBO organizations	677	0.6
Insurance and commercial savings and loan holding companies (SLHCs)	SLHCs primarily engaged in insurance or commercial activities	6 insurance 4 commercial	0.9

* Includes 3,613 holding companies and 58 state member banks that do not have holding companies.

- Regional banking organizations (RBOs)—U.S. firms with total assets between \$10 billion and \$100 billion—are supervised by the RBO program.
- Community banking organizations (CBOs)—U.S. firms with less than \$10 billion in total assets—are supervised by the CBO program.

Table 2 provides an overview of the organizations supervised by the Federal Reserve, by portfolio, including the number of institutions and total assets in each portfolio.

Large Financial Institutions

This section of the report discusses the supervisory approach for large financial institutions, which are U.S. firms with assets of \$100 billion or more and foreign banking organizations with combined U.S. assets of \$100 billion or more. These firms are within either the LISCC portfolio or the LFB/O portfolio. Large financial institutions are subject to regulatory requirements that are tailored to the risk profiles of these firms. Appendix A, table 1.A provides an overview of these regulatory requirements.

Supervisory efforts for large financial institutions focus on four specific components: (1) capital planning and positions, (2) liquidity risk management and positions, (3) governance and

Box 6. Upcoming Large Financial Institution Supervisory Priorities

Capital

- trading and counterparty credit risk management, including areas such as concentrations, hedging, and client leverage
- risks associated with the evolving interest rate environment and the expiration of pandemic era relief measures, including interest rate risk and credit risk
- readiness for recent updates to the capital framework and reviews of risk-weighted assets under the capital rule

Liquidity

- internal liquidity stress testing scenarios, assumptions, and methodologies
- independent risk management
- nonbank liquidity risk
- collateral management

Governance and controls

- operational resilience, including cyber-related and information technology risks
- compliance risk management, including Bank Secrecy Act/anti-money-laundering programs and Office of Foreign Assets Control compliance
- LIBOR transition preparedness

Recovery and resolution planning

- resolution plan and critical operation reviews
- international coordination

controls, and (4) recovery and resolution planning.⁶ The Federal Reserve's assessment of a firm is reflected in the firm's supervisory rating under the large financial institution rating system.⁷ As of the third quarter of 2021, over half of the large financial institutions are considered to be in satisfactory condition. Federal Reserve supervisors have observed that firms are generally meeting supervisory expectations with respect to capital planning and positions and liquidity risk management and positions. However, some firms continue to face challenges, particularly related to governance and controls.

Large financial institutions continue to report strong capital and liquidity positions.

Large financial institutions have remained well capitalized and able to support lending through the COVID event. (See [Box 2, Third-Quarter 2021 Earnings at a Sample of Large Banks](#).) The aggregate common equity tier 1 capital ratio for large financial institutions in the second quarter of 2021 was 12.8 percent, higher than the ratio reported prior to the COVID event. As discussed below, recent stress test results show large financial institutions have sufficient capital levels to continue lending to households and businesses during a severe recession.

Liquidity is at historic highs at large financial institutions, driven by strong deposit growth. Bank deposits and liquid assets have contin-

ued to grow through the second quarter of 2021, albeit at a much slower pace than the early stages of the COVID event. As of the second quarter of 2021, large financial institutions fund approximately 60 percent of their assets in deposits, and liquid assets account for 30 per-

⁶ The Federal Reserve focuses on recovery planning for LISCC firms only. For more information regarding the framework for supervision of large financial institutions, see Board of Governors of the Federal Reserve System, SR Letter 12-17/ CA Letter 12-14, "Consolidated Supervision Framework for Large Financial Institutions," at <https://www.federalreserve.gov/supervisionreg/srletters/sr1217.htm>; and box 4 of the November 2018 *Supervision and Regulation Report* at <https://www.federalreserve.gov/publications/2018-november-supervision-and-regulation-report-preface.htm>.

⁷ See Board of Governors of the Federal Reserve System, SR Letter 19-3/CA Letter 19-2, "Large Financial Institution (LFI) Rating System," at <https://www.federalreserve.gov/supervisionreg/srletters/sr1903.htm> The Federal Reserve's and FDIC's assessment of resolution planning is communicated to the firm in connection with the agencies' review of the Title I resolution plans.

cent of their total assets. Consequently, large financial institutions continue to maintain sufficient liquid assets to meet liquidity needs for a 30-day stress scenario.

Capital restrictions end as stress tests indicate sufficient capital.

The Federal Reserve released the results of its annual bank stress tests in late June, which showed that the 23 large financial institutions subject to this year's test continue to have strong capital levels and could continue lending to households and businesses during a severe recession.⁸

As a result, the additional capital distribution restrictions put in place during the COVID event ended in July 2021. Those restrictions had constrained share repurchases and dividends based on recent income and previous payouts. Although the additional restrictions have ended, large banks remain subject to the normal restrictions of the Board's capital rules, including the stress capital buffer framework.

This test was the latest of three stress tests run by the Federal Reserve since the onset of the COVID event to evaluate the ability of the banking system to support the ongoing recovery.

Operational resilience and cybersecurity remain a high priority.

Operational resilience is defined as a firm's ability to withstand and recover from disruptive events. This continues to be an area of focus for firms and supervisors. In assessing a large firm's operational resilience, the Federal Reserve evaluates the following:

- the effectiveness of the board of directors in overseeing—and senior management in implementing—sound practices to manage operational resilience;
- the resilience of the firm's information systems for the firm's critical operations and core business lines; and
- the effectiveness of the firm's business continuity and disaster recovery plans, processes, and procedures to support timely restoration of systems or assets affected by incidents.

Cybersecurity is a critical component of operational resilience and remains the top risk identified at supervised firms. Cyber threats and attacks have increased significantly since the onset of the COVID event. Ransomware attacks continue to be a concern in the financial sector.

The Federal Reserve expects firms to implement an effective cybersecurity posture. Supervisory expectations include basic cyber hygiene, such as IT asset management, vulnerability management, and patch management. Supervisors also expect firms to proactively identify and mitigate cyber threats and remain vigilant to strengthen their operational resilience. The Federal Reserve continues to monitor and evaluate cybersecurity risk-management practices across large financial institutions.

For the largest and most complex financial institutions, the Federal Reserve, along with the FDIC and OCC, has established a program to partner on cybersecurity reviews. The program

⁸ Board of Governors of the Federal Reserve System, news release, "Federal Reserve Board releases results of annual bank stress tests, which show that large banks continue to have strong capital levels and could continue lending to households and businesses during a severe recession," June 24, 2021, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210624a.htm>.

Box 7. Archegos Supervisory Assessment

Archegos Capital Management, an investment firm heavily concentrated in a small number of U.S. and Chinese technology and media companies, defaulted on March 26, 2021, causing over \$10 billion in losses across several large banks, principally outside the United States. The Federal Reserve, along with other U.S. and foreign regulators, initiated a supervisory assessment to understand the actions that led to Archegos's failure and assess any risk-management shortcomings at supervised firms.

The supervisory assessment covered firms that had material exposure to Archegos. The agencies looked at onboarding and due diligence practices on prime brokerage clients, counterparty credit risk-management and margining practices, and the processes to unwind positions in the event of a counterparty default, among other areas.

Upon conclusion of the assessment, supervisors will provide feedback to firms on areas of weak practices. The event has so far revealed weaknesses in margin practices and counterparty risk management at some firms. The assessment also highlights the importance of continued global coordination in the supervision of cross-jurisdictional activities.

will improve cybersecurity examination coverage, build an understanding of firms' cybersecurity posture, and reduce regulatory overlap while increasing efficiency and consistency. The program was established in 2020, and the first cycle of examinations was recently completed. For large financial institutions not assessed through the interagency program, the Federal Reserve reviews cybersecurity capabilities and coordinates in a less formal way with other agencies.

Community and Regional Banking Organizations

This section discusses the financial condition and supervisory approach for banking organizations with assets less than \$100 billion, including CBOs, which have less than \$10 billion in total assets, and RBOs, which have total assets between \$10 billion and \$100 billion.

Most CBOs and RBOs have remained in stable financial condition throughout the COVID event.

CBOs and RBOs have exhibited resilience throughout the COVID event. The aggregate leverage ratio for both CBOs and RBOs declined somewhat from the fourth quarter of 2019 to the second quarter of 2021, as bank assets increased, driven by PPP lending and deposit growth. More than 99 percent of CBOs and RBOs have capital ratios above well-capitalized minimums. Profitability of CBOs and RBOs has also recovered to pre-COVID-event levels.

Traditional asset quality metrics appear sound. The balance of loans modified due to the COVID event, in accordance with section 4013 of the CARES Act, has fallen significantly. For CBOs, these balances fell from \$205 billion as of the second quarter of 2020 to \$45 billion as of the second quarter of 2021. Over the same period, RBOs' balances went from \$163 billion to \$21 billion. However, asset quality could decline when loan accommodations and public-sector stimulus programs expire. While the data from the third-quarter 2021 regulatory financial report are not yet available, earlier indications are that financial conditions of CBOs and RBOs are trending in the same direction as the second quarter.

The majority of CBOs and RBOs report improving credit conditions.

Based on discussions between Federal Reserve supervisors and supervised institutions, most CBOs and RBOs are not expecting changes in their lending strategies, except for loans to borrowers in certain industries that were adversely affected by the COVID event. Most CBOs and RBOs have indicated that they have limited concerns that falling collateral valuations are affecting credit conditions. Many firms noted that recent appraisals have shown stable or a minimal decline in property values, except for certain CRE segments.

Generally, CBOs report stable or improving credit conditions. A few community banks noted some downgrades in certain segments of their commercial loan portfolios. For borrowers still facing challenges from the COVID event, CBOs noted that these borrowers have sought additional loan accommodations. Most RBOs report no material change in credit conditions, with several noting upgrades of loan risk ratings as commercial borrowers return to normalized operations.

CBOs and RBOs generally fared well in terms of operational resilience in response to the COVID event, though challenges persist. The Federal Reserve and the other federal financial regulatory agencies recently reminded financial institutions about the risks arising from cybersecurity attacks and the need to effectively authenticate users and customers to protect information systems, accounts, and data.⁹

The Federal Reserve has refined CBO and RBO supervisory activities, incorporating lessons learned from the COVID event.

During the past year, off-site monitoring enabled the Federal Reserve to assess the implications of the COVID event for CBOs and RBOs and to provide the necessary assistance to these institutions as they responded to these events.

Box 8. CBO and RBO Supervisory Priorities

Overall

- refining the risk-focused supervisory approach, incorporating lessons learned from the COVID event
- assessing capital preservation and liquidity resilience
- evaluating risk-identification and management practices
- prioritizing examiner resources on high-risk institutions

Credit Risk

- loan modifications
- credit concentrations, including commercial real estate loan concentrations
- high-risk loan portfolios
 - commercial real estate loan portfolios
 - loans to borrowers in pandemic-affected industries
- underwriting practices and asset growth
- reserve practices and levels

Capital

- capital planning, projections, needs, and vulnerabilities
- capital actions
- earnings assessment

Operational Risk

- continuity of operations
- information technology and cybersecurity

⁹ Board of Governors of the Federal Reserve System, SR Letter 21-14, “Authentication and Access to Financial Institution Services and Systems,” August 11, 2021, <https://www.federalreserve.gov/supervisionreg/srletters/sr2114.htm>.

CBO and RBO supervisory activities continue to be focused on high-risk institutions, including regular engagement between Federal Reserve examiners and bank management. For low- and moderate-risk institutions, the Federal Reserve has recently returned to pre-COVID-event practices for establishing the scope and schedule for CBO and RBO examinations, either once every 12- or 18-month period.¹⁰ The Federal Reserve will continue to assess the adequacy of an institution’s risk-management practices for capital and liquidity resilience. Examiners will rely on existing guidance to assess how bank management assigns asset classifications and downgrades credits. Further, the Federal Reserve has stated that examiners will not criticize management’s actions for prudent efforts to work with borrowers or support their communities throughout the COVID event.¹¹

Since the onset of the COVID event, 1 percent of CBO state member bank exams resulted in a downgrade from a satisfactory to a less-than-satisfactory CAMELS composite rating, while the same percentage of CBO state member bank exams resulted in an upgrade from a less-than-satisfactory to a satisfactory rating during that same period.¹² As of the third quarter of 2021, 96 percent of CBOs and RBOs are rated satisfactory or better, and 97 percent of CBO and RBO state member banks are rated satisfactory or better.

Box 9. CECL Tool—SCALE

On July 15, 2021, the Federal Reserve introduced a method and tool to aid community banks with less than \$1 billion in total assets in implementing the Current Expected Credit Losses (CECL) accounting standard. Federal Reserve staff developed the Scaled CECL Allowance for Losses Estimator (SCALE) method and tool for smaller community banks to use in estimating their allowances for credit losses under CECL.¹

The SCALE tool is a simple, spreadsheet-based method to calculate CECL-compliant allowances for credit losses. The tool uses publicly available data from the Call Report to derive the initial proxy for expected lifetime loss rates. If a bank decides to use the SCALE tool, the bank still needs to apply qualitative adjustments, reflecting the bank’s unique facts and circumstances. Bank management remains responsible for ensuring that the bank’s allowances accurately reflect the credit risk in its portfolio and loss history.

The SCALE method is one of many potentially acceptable CECL methods that a bank may use to estimate its allowances for credit losses. The SCALE method is not a regulator-preferred method and does not ensure compliance with U.S. generally accepted accounting principles (GAAP) or any other regulatory requirement.

¹ To access information on the SCALE method and tool, see the CECL Resource Center website at <https://www.supervisionoutreach.org/cecl/scale>.

¹⁰ An examination of every insured state member bank is conducted at least once during each 12-month period. For certain small institutions, the examination frequency is once during each 18-month period. Refer to the Federal Reserve’s *Commercial Bank Examination Manual* at <https://www.federalreserve.gov/publications/files/cbem.pdf>.

¹¹ Board of Governors of the Federal Reserve System, SR Letter 20-15, “Interagency Examiner Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic on Institutions,” <https://www.federalreserve.gov/supervisionreg/srletters/sr2015.htm>.

¹² Refer to [appendix A](#) for an explanation of CAMELS ratings.

Appendix A: Data Sources and Terms

Data Sources

The Supervision and Regulation Report includes data on institutions supervised or not supervised by the Federal Reserve System. The report reflects data through September 10, 2021. 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, insured nonmember bank, and savings association 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 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 bank holding companies (BHCs), savings and loan holding companies (SLHCs), U.S. intermediate holding companies (IHCs), and securities holding companies (SHCs). Initiatives to reduce reporting costs for firms led to changes in the minimum asset size thresholds for reporting from \$500 million to \$1 billion, and from \$1 billion to \$3 billion effective March 2015 and September 2018, respectively. In addition, BHCs, SLHCs, U.S. IHCs, and SHCs meeting certain criteria may be required to file this report, regardless of size. However, when such BHCs, SLHCs, U.S. IHCs, or SHCs own or control, or are owned or controlled by, other BHCs, SLHCs, U.S. 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.

H.8 – Assets and Liabilities of Commercial Banks in the United States

The H.8 release provides an estimated weekly aggregate balance sheet for all commercial banks in the United States. The H.8 release is primarily based on data that are reported weekly by a sample of approximately 875 domestically chartered banks and foreign-related institutions. Data for domestically chartered commercial banks and foreign-related institutions that do not report weekly are estimated at a weekly frequency based on quarterly Call Report data.

Notes on Data Sources and Terms

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 (compo-

nents) 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.

Commercial Real Estate Loans

The sum of construction, land development, and other land loans; loans secured by multifamily residential properties; and loans secured by nonfarm nonresidential properties.

Note: H.8 CRE data include loans secured by farmland.

Common Equity Tier 1

Common equity capital is currently evaluated using a common equity tier 1 (CET1) capital ratio, which was introduced into the regulatory capital framework in 2014, consistent with international Basel III reforms. The CET1 capital ratio is defined as CET1 capital, which consists primarily of common stock and retained earnings, as a percent of risk-weighted assets. Advanced approaches institutions are required to report risk-weighted assets using an internal model-based approach and a standardized approach. An advanced approaches institution is subject to the lower of the ratios. CBOs that have opted into the community bank leverage ratio (CBLR) framework are not required to report a CET1 capital ratio and risk-weighted assets.

From 2006 through 2013, tier 1 common capital was used to measure common equity capital for all firms. In 2014, both tier 1 common capital (for non-advanced approaches firms) and CET1 capital (for advanced approaches firms) were used. From 2015 to present, CET1 capital has been used for all firms.

Community Bank Leverage Ratio Framework

The CBLR framework, which became effective January 1, 2020, allows qualifying CBOs to adopt a simple leverage ratio to measure capital adequacy. To qualify for the framework, a CBO must have less than \$10 billion in total consolidated assets, have limited trading activity and off-balance-sheet exposure, meet the leverage ratio requirement, and not be part of an advanced approaches banking organization. The leverage ratio requirement for the CBLR framework was temporarily lowered to 8 percent beginning in the second quarter of 2020 through the remainder of calendar year 2020. The requirement was set at 8.5 percent for calendar year 2021 and will return to its previous 9 percent level beginning January 1, 2022.

The leverage ratio requirement for the CBLR framework is defined as tier 1 capital as a percent of average total consolidated assets for the quarter as reported on Schedule RC-K on the Call Report or Schedule HC-K on Form FR Y-9C, as applicable. A CBLR banking organiza-

tion with a ratio above the requirement will not be subject to other capital and leverage requirements.

Consumer Loans

Consumer loans include credit cards, other revolving credit lines, automobile loans, and other consumer loans (includes single payment and installment loans other than automobile loans, and all student loans).

Credit Default Swap Spread

The five-year credit default swap spread is the premium payment expressed as a proportion of the notional value of the debt that is being insured against default (typically \$10 million in senior debt) in basis points. 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 firms only.

Credit Loss Reserves

Credit loss reserves represent the allowance for credit losses on a bank's portfolio of financial instruments carried at amortized cost (including loans held for investment, held-to-maturity debt securities, trade receivables, reinsurance receivables, and receivables that relate to repurchase agreements and securities lending agreements), net investment in leases as a lessor, and off-balance sheet credit exposures not accounted for as insurance or derivatives. Credit loss reserves are recorded on a bank's balance sheet.

Note: For banks that have not yet adopted the Current Expected Credit Losses (CECL) accounting standard, credit loss reserves represent the allowance for losses on a bank's portfolio of loans and leases held for investment.

Delinquent Loans

Delinquent loans are the sum of 90+ days past due loans and nonaccrual loans.

Liquid Assets

Liquid assets are cash plus estimates of securities that qualify as high-quality liquid assets, as defined by the Board's liquidity coverage ratio rule.

Loan Modifications under Section 4013 of the CARES Act

Section 4013 of the CARES Act (and further amendments by the Consolidated Appropriations Act, 2021) allows financial institutions to suspend the requirements to classify certain loan modifications as troubled debt restructurings. To be an eligible loan under section 4013, a loan modification must be: (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (a) 60 days after the date of termination of the National Emergency or (b) January 1, 2022 (referred to as the "applicable period").

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 firms only.

Material Supervisory Determination

As explained in SR Letter 20-28/CA Letter 20-14, a “material supervisory determination” includes, but is not limited to, any material determination relating to examination or inspection composite ratings, material examination or inspection component ratings, the adequacy of loan loss reserves and/or capital, significant loan classification, accounting interpretation, Matters Requiring Attention (MRAs), Matters Requiring Immediate Attention (MRIAs), Community Reinvestment Act ratings (including component ratings), and consumer compliance ratings. The term does not include any supervisory determination for which an independent right of appeal exists or a referral to another government agency.

Provisions

Provisions represent the amount necessary to adjust credit loss reserves to reflect management’s current estimate of expected credit losses. Provisions are recorded as an expense item on the bank’s income statement.

Note: For banks that have not adopted the CECL accounting standard, provisions represent the amount needed to make the allowance for losses on a bank’s portfolio of loans and leases adequate to absorb management’s estimate of loan and lease losses.

Residential Real Estate Loans

Loans secured by 1 to 4 family residential properties, including: revolving, open-end loans secured by 1 to 4 family residential properties and extended under lines of credit; closed-end loans secured by first liens on 1 to 4 family residential properties; and closed-end loans secured by junior (i.e., other than first) liens on 1 to 4 family residential properties.

Top Holder

All data, unless otherwise noted, use top-holder data. This population generally comprises top-tier Call Report filers and top-tier Y-9C filers, including depository SLHCs and foreign banking organizations. In instances where a top-tier holding company does not file the Y-9C, we combine financial data of subsidiary banks/thrifts to approximate the consolidated financial data of the holding company. Commercial and insurance SLHCs, cooperative banks, and Federal Reserve member non-deposit trust companies are excluded from the top-holder population.

Tailoring of Regulation

In October 2019, the Board adopted rules that tailor its regulations for domestic and foreign banks to more closely match their risk profiles. The rules establish a framework that sorts banks with \$100 billion or more in total assets into four categories based on several factors, including asset size, cross-jurisdictional activity, reliance on weighted short-term wholesale funding (wSTWF), nonbank assets (NBA), and off-balance-sheet exposure ([table A](#)).

Table 1.A. List of domestic and foreign firms, by category, as of 2021:Q2

Firm type	Category I U.S. G-SIBs	Category II >=\$700b total assets or >=\$75b in cross- jurisdictional activity	Category III >=\$250b total assets or >=\$75b in NBA, wSTWF, or off-balance-sheet exposure	Category IV Other firms with \$100b to \$250b total assets
Domestic firms				
U.S. domestic banking organization	Bank of America Bank of New York Mellon Citigroup Goldman Sachs JPMorgan Chase Morgan Stanley State Street Wells Fargo	Northern Trust	Capital One Charles Schwab PNC Financial Truist Financial U.S. Bancorp	Ally Financial American Express Citizens Financial Discover Fifth Third Huntington KeyCorp M&T Bank Regions Financial SVB Financial
Foreign firms (standards vary by legal entity)				
Intermediate holding company			Barclays US Credit Suisse USA Deutsche Bank USA DWS USA HSBC North America TD Group US UBS Americas	BMO Financial BNP Paribas USA MUFG Americas RBC US Santander Holdings USA
Combined U.S. operations		Barclays Credit Suisse MUFG Sumitomo Mitsui Toronto-Dominion	Bank of Montreal BNP Paribas Deutsche Bank HSBC Mizuho Royal Bank of Canada UBS	Banco Santander Bank of Nova Scotia Societe Generale
Note: NBA is nonbank assets, wSTWF is weighted short-term wholesale funding. Source: FR Y-15, FR Y-9C, FR Y-7Q, 2020:Q3-2021:Q2.				

Appendix B: Abbreviations

AI	artificial intelligence
BHC	bank holding company
CAMELS	Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CBLR	Community Bank Leverage Ratio
CBO	community banking organization
CCAR	Comprehensive Capital Analysis and Review
CDS	credit default swap
CECL	current expected credit loss
CET1	common equity tier 1
CFPB	Consumer Financial Protection Bureau
CRA	Community Reinvestment Act
CRE	commercial real estate
C&I	commercial and industrial lending
FBO	foreign banking organization
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
G-SIB	global systemically important bank
HCR	horizontal capital review
HELOC	home equity line of credit
IHC	intermediate holding company
LBO	large banking organization
LFBO	large and foreign banking organization
LIBOR	London Inter-Bank Offer Rate
LISCC	Large Institution Supervision Coordinating Committee
MRA	Matters Requiring Attention
MRIA	Matters Requiring Immediate Attention
NAT	national bank
NMB	state nonmember bank
OCC	Office of the Comptroller of the Currency
PPP	Paycheck Protection Program
PPPLF	Paycheck Protection Program Liquidity Facility
RBO	regional banking organization

ROAA	return on average assets
ROE	return on equity
SBA	Small Business Administration
SCALE	Scaled CECL Allowance for Losses Estimator
SEC	U.S. Securities and Exchange Commission
SHC	securities holding company
SLHC	savings and loan holding company
SMB(s)	state member bank(s)
UDAP	unfair or deceptive acts or practices
U.S. G-SIB	global systemically important bank in the United States

